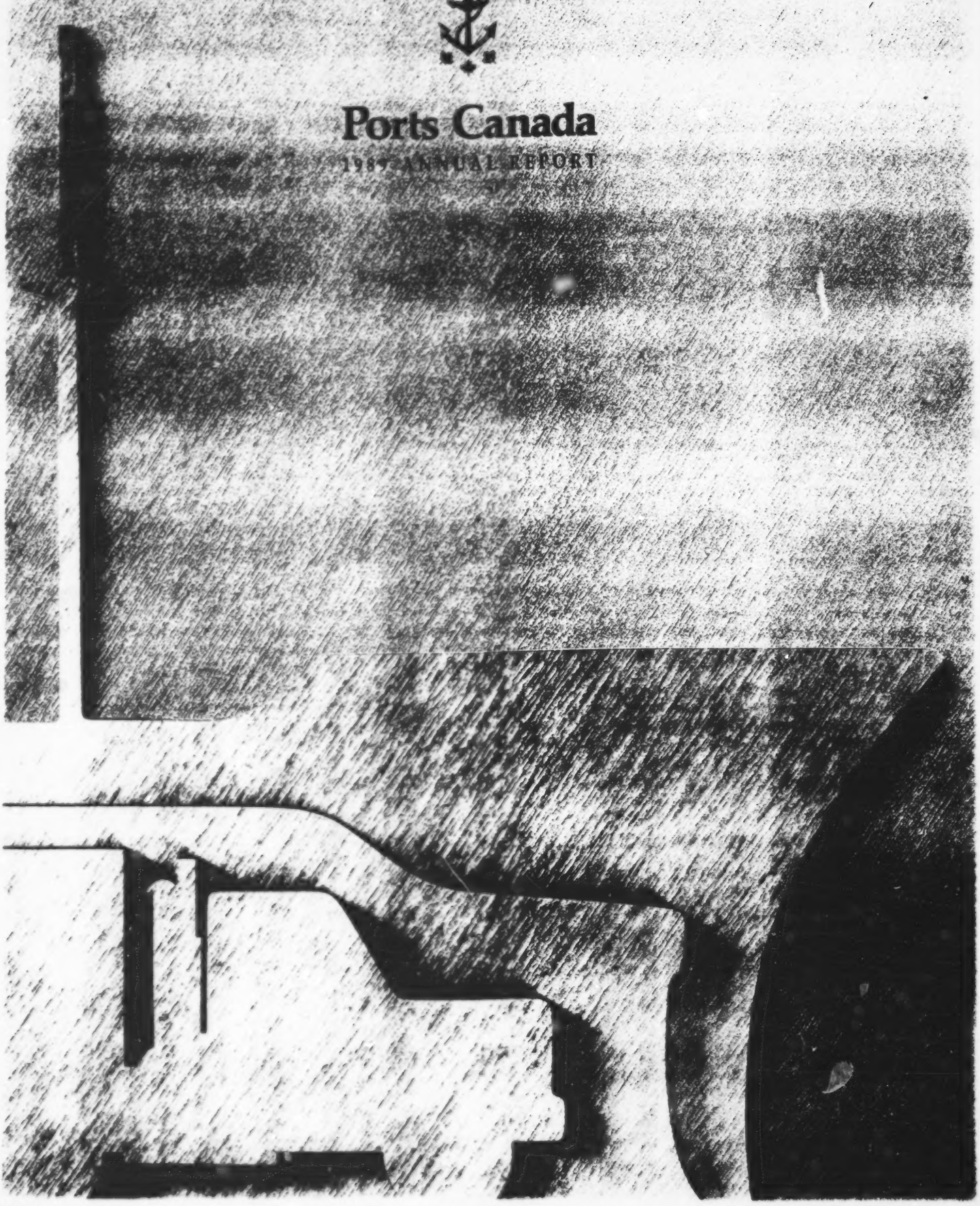
Ports Canada

1987 ANNUAL REPORT



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Ports Canada Profile

"Ports Canada" describes a federal system of ports administered pursuant to the *Canada Ports Corporation Act* which was proclaimed in 1983. Seven of these ports are autonomous local port corporations located in Halifax, Montréal, Prince Rupert, Québec, Saint John, St. John's and Vancouver. The other ports are administered on a divisional basis by the Canada Ports Corporation and are located in Belledune, Chicoutimi/Baie des Ha! Ha!, Churchill, Port Colborne, Prescott, Sept-Îles and Trois-Rivières.

Ports Canada handles nearly half of the overall Canadian port traffic. It is, therefore, an effective means for the implementation of the national ports policy. The policy provides for, at the best cost possible, and in a manner equitable to all users, the services necessary for Canada's international shipping trade at national, regional and local levels.

The system operates on a decentralized basis; each of the local port corporations functions with a high degree of autonomy in the administration of their own port. In providing a public service, the ports are administered according to common commercial principles.

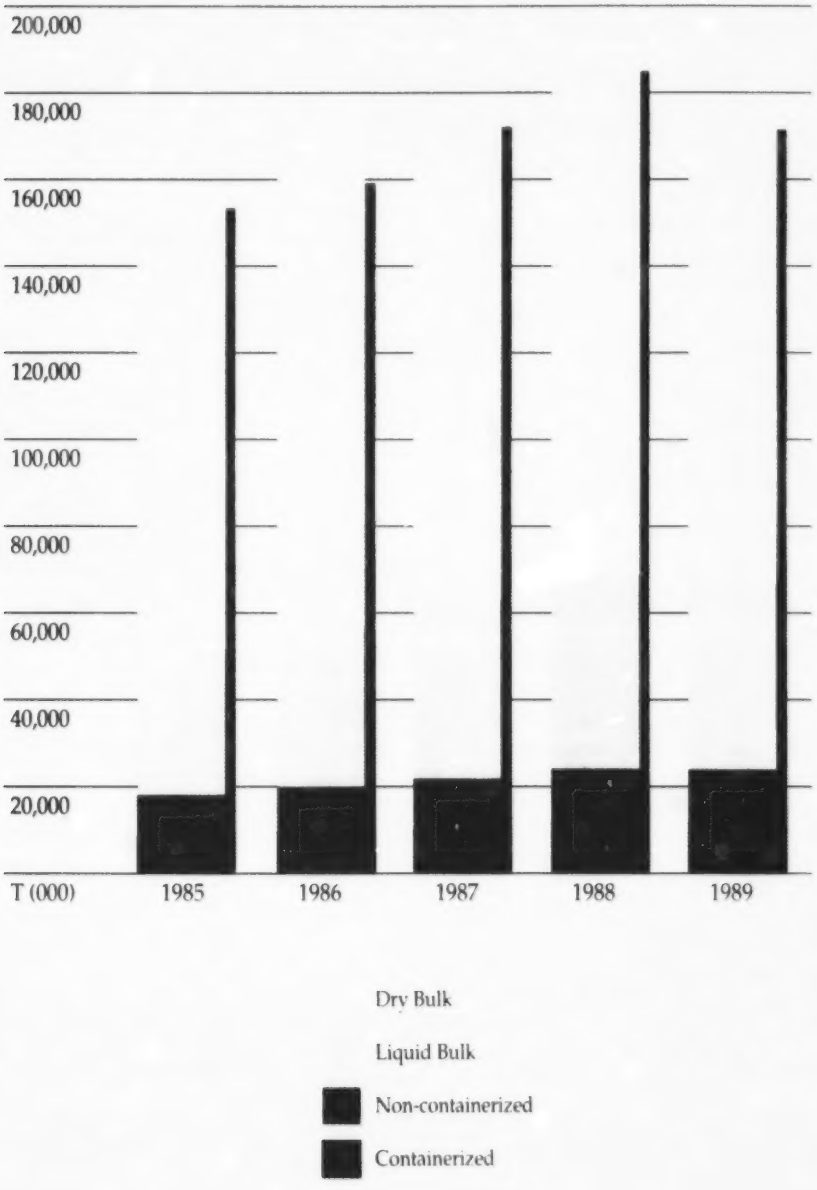
The Canada Ports Corporation's National Office is located in Ottawa.

If you would like to receive a copy of the annual report, please write to Ports Canada, Corporate Services, 99 Metcalfe Street, Ottawa, Ontario K1A 0N6.

Pour recevoir ce rapport en français, prière de s'adresser à Ports Canada, Services de la Société, 99 rue Metcalfe, Ottawa (Ontario) K1A 0N6.

Ports Canada Perspective

Five Year Review of Traffic



Total port traffic refers to cargo handled through terminals administered by Ports Canada, as well as traffic through private facilities within the jurisdiction of the port. In 1989, Ports Canada ports handled 174.2 million tonnes, a 6.8 percent drop from the volume reported a year earlier. Of this total, 143.9 million tonnes, or 83 percent, were handled collectively by the seven local port corporations and 30.2 million tonnes, or 17 percent, by the Canada Ports Corporation. The main reason for the decline was a continuing slide in grain exports which was felt by all the major ports in the system. Other major commodities such as coal and petroleum products also experienced declines in traffic movements.

Total tonnage handled through Ports Canada berths in 1989 was 76.1 million tonnes, down 8 percent from 82.7 million tonnes recorded in 1988. The seven local port corporations handled 72.6 million tonnes, a decline also of 8 percent from the 78.8 million tonnes handled the previous year. Total tonnage through Canada Ports Corporation facilities in 1989 was 3.5 million tonnes, down close to 9 percent from 3.9 million tonnes in 1988.

Total grain shipments handled across the Ports Canada system were down again in 1989 to 19.2 million tonnes, or 26.2 percent, from 26 million tonnes in 1988. The ports of Saint John, Québec, Trois-Rivières, Montréal and Vancouver were particularly affected by this continued downturn in the industry.

Coal shipments were down by 2.5 percent as well, to 31.2 million tonnes from the reported 32 million tonnes a year earlier.

A total of 12.4 million tonnes of containerized traffic, or 1.4 million TEU's (twenty foot equivalent units) were handled through Ports Canada facilities, a slight drop from 12.5 million tonnes in 1988. Results were favorable at the Port of Halifax with a 10 percent increase over last year, while decreases were recorded at the other two major container ports. The Port of Montréal recorded a 6.5 percent decrease, and the Port of Vancouver handled 3.2 percent less containerized traffic than last year. The Port of St. John's enjoyed an 18 percent improvement over last year in its volume of containerized domestic cargo.

Non-containerized general cargo experienced a minor decline of 1.2 percent to 11.8 million tonnes in 1989.

Ports Canada Financial Review

Ports Canada Five Year Financial Review

(in millions except for average number of employees and ratios)

	1989	1988	1987	1986	1985
Financial results					
Revenue from operations	$ 169.9	$ 169.5	$ 169.9	$ 159.9	$ 153.7
Operating expenses	147.5	140.9	140.0	138.1	130.3
Operating income	22.3	28.6	29.9	21.8	23.4
Investment income – net	24.9	20.9	16.0	18.9	26.8
Net income before RTI*	48.7	62.9	46.1	42.1	51.9
Cash provided by operating activities	59.8	96.2	69.3	58.1	76.4
Financial position at year end					
Working capital	$ 179.7	$ 183.0	$ 148.6	$ 114.2	$ 211.7
Fixed assets – at cost	1,124.2	1,056.9	1,015.4	990.1	962.3
Total assets	1,004.5	960.4	895.5	863.5	974.2
Equity of Canada	846.5	785.5	737.4	227.8	322.3
Capital expenditures	$ 77.6	$ 49.7	$ 33.8	$ 50.2	$ 64.1
Federal capital financing					
Grants	$ 4.8	$ 2.8	$ 2.1	$ 13.5	$ 14.3
Loans	4.5	1.0	1.0	4.1	5.2
Employees					
Average number of employees	1,208	1,291	1,344	1,452	1,517
Ratios					
Operating revenue/tonne	$ 0.98	$ 0.91	$ 0.98	$ 0.99	$ 0.99
Tonnes/employee	144,170	144,711	129,455	110,840	102,307
Cash from operating activities/total assets	6.0%	10.0%	7.7%	6.7%	7.8%

* Ridley Terminals Inc.

Revenues from operations for Ports Canada rose to $170 million in 1989. Most of the system's ports were able to maintain at least the same level of revenues as in 1988, in spite of declines in traffic volumes. A serious drop in the volume of grain handled was felt across the system in 1989. Total grain tonnage amounted to 19 million tonnes in 1989 compared to 26 million tonnes in 1988. Nevertheless, the strong revenue-generating ability of other commodities compensated for the slower year in grain.

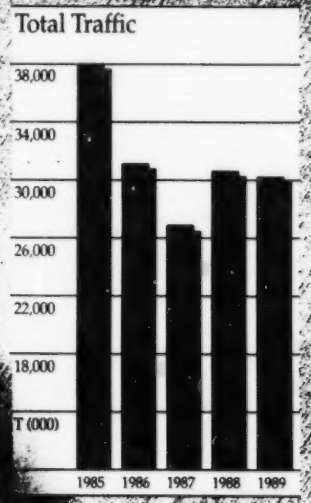
Operating expenses of $148 million reflect an increase of 5 percent. While a reduction in some expenses was observed in 1989 in defiance of inflation, two components that lead to the overall increase were grants in lieu of municipal taxes, and depreciation charges related to new upgraded facilities in a number of locations. Operating income of $22 million was recorded for 1989 while funds from operations, being operating income before depreciation, were $51 million. Investment income was $25 million in 1989, an improvement of $4 million over 1988. This increase in investment income reflects larger investment bases at several ports, as well as a rise in the general level of interest rates. Funds generated by operations and investments provide a needed source of financing for future capital projects required to enable the ports to remain competitive and effective.

The net income for Ports Canada, before the $3 million share in the loss of Ridley Terminals Inc., was $49 million in 1989 compared to $63 million in 1988. The 1988 results included an unusual gain on the disposal of land recorded at Vancouver and Saint John.

In 1989 Ports Canada declared and paid dividends of $13 million based on the 1988 financial results. By means of a grant of $27 million from Canada to Canada Ports Corporation, an amount equivalent to the 1988 and 1989 Ports Canada dividend payments and earned interest, an interport loan fund was created in May 1989. This fund will be an alternative source of financing for financially viable capital projects of the eight Ports Canada corporations.

During the year, Ports Canada invested $78 million in capital projects. Of this amount, $68 million was provided by internally generated funds. Major capital projects undertaken in 1989 included the expansion and upgrading of port facilities at Prince Rupert, Vancouver, and Montréal. This level of capital investment reflects the system's ongoing commitment to provide the most modern and efficient port facilities as is economically feasible.

Canada Ports Corporation



Message from the Chairman of the Board

A.R. Huntington

The 1980s delivered profound change to the global marketplace in which the providers and users of transportation services work. Canada's major commercial ports have been adjusting to the direct effect of changing traffic routes, new technology, new pricing practices and of course changes in the rules by which transportation services are governed.

Although infrastructure for the moving, handling and loading of bulk resource and forest products is generally state-of-the art in Canada, we have a continuing concern for the competitiveness and long term viability of rail carriers providing an east-west intermodal corridor. Our ports are rail dependant, and our ability to compete with US ports is, in part, related to the competitiveness of Canadian rail vis-a-vis US rail.

A second priority issue is the increasing awareness of practices that could adversely affect our environment. The Boards within Ports Canada are seized of these concerns and port planning and emergency response measures are being adjusted accordingly. We are encouraged by the efforts of Ports Canada Police and Harbour Masters in upgrading operational regulations and practices affecting environmental protection.

A third priority concern facing Boards within Ports Canada is the increasing pressure for non-port related use of port lands adjacent to deep water. The interests of hinterland port users and the benefit of the economic multiplier effect from port activity, are increasingly in conflict with local urban neighbourhoods and civic interests. In the year ahead, we will review and attempt to improve the process for dealing with local interests.

The minimum threshold for return on investment among ports in various North American jurisdictions, remains a concern. The commercial principles by which we operate and the user pay standards we impose can be sustained, only if the ports with whom we compete, operate under similar standards. In the short term, we expect intense competition and instability. However over the long term, we believe that Canadians will be served best by ports that are planned and managed on a financially sound basis.

In 1989, the port corporations reached consensus on a proposal to amend their levels of delegated authority. If approved by the Ministers of Transport and Treasury Board, the higher authorities will provide port corporations with greater autonomy as intended by our legislation. We are upgrading our review processes for this increased level of responsibility.

The CPC Board continues to be very pleased with the performance of the local port corporations. The interface between staff and Boards is delivering well balanced and progressive initiatives.

We look forward to the exciting commercial role which is evolving for the divisional ports of Belledune and Sept Îles as we prepare for major industrial installations.

In 1989, the EDI committee of the Board and the staff of the Canada Ports Corporation have played an exploratory and catalyst role in the evolution of Electronic Data Interchange. The year ahead should see implementation of this technology within the Canadian intermodal freight network with direct links to Canada Customs for clearance while goods are moving. We have learned much from other systems around the globe and we are confident Canadian interests will be well served by these efforts.

At the request of our ports, the CPC Board has established a committee to assess the competitiveness of Canadian container gateways and routings. This project is complicated by the intense competition and fast pace of change in the inter-modal marketplace. The production of useful research and recommendations on our strategic options, will require the cooperation of all persons, agencies and entities interested in sustaining competitive Canadian intermodal routings. We believe that future decisions must be based on an understanding of the factors that determine the competitiveness of our ports and the inland corridors on which we depend.

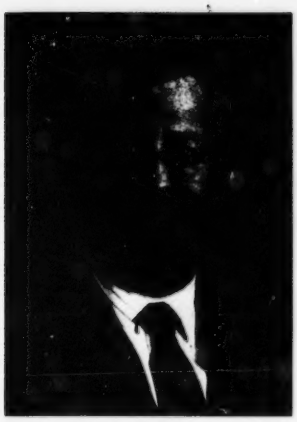
On behalf of the Board of Directors, I thank the President, Mr. Jean Michel Tessier and his management team for the dedication they continue to give to the Corporation and to the Ports Canada system.

We believe the Minister of Transport has been well served by progress at the local and national level. We look forward to another year of achievement under his guidance.

A.R. Huntington

The Honourable A.R. Huntington

Message from the President and Chief Executive Officer



Jean Michel Tessier

With the close of 1989 came the end of an eventful decade, not only for the Corporation but also for the entire maritime industry internationally. The world maritime scene, particularly that of North America, was jolted with the introduction, in the United States, of deregulating initiatives that legislated into practice the laws paramount in the market-place. Canada followed suit and the transportation sector received the much-needed regulatory reform, blessed by all concerned, particularly the shipper.

Canada Ports Corporation reaped immense benefits from the decade, characterized by decentralization globally and at home. After a prolonged period of debate, 1983 witnessed the birth of the *Canada Ports Corporation Act*, the much-applauded legislation that transformed the former National Harbours Board to the locally-minded and nationally-conscious Ports Canada. Much has been accomplished in a relatively short timespan under the new legislation: seven local port corporations have been created pursuant to the *CPC Act*. Ports Canada ports now account for more than one-half of Canada's waterborne traffic, a share that has steadily risen since the beginning of the eighties. The 1980s also saw the realization of major expansion within the Corporation including Ridley Terminals Inc. in Prince Rupert, Grande Anse in Chicoutimi and Pointe Noire in Sept-Îles.

The latter part of the decade saw the enactment of the new *National Transportation Act* and the dawn of an era of free trade between Canada and the United States. These measures will go a long way toward ensuring Canada's competitiveness and well-being in an increasingly dynamic world arena.

The decade's final year was marked with measurable achievements for the Corporation. An enhanced delegation of authority instrument was developed for all member port corporations. Two mega-projects were announced at the ports of Sept-Îles, Quebec and Belledune, New Brunswick. The aluminum smelter and power plant, respectively, will materially enhance the viability of these divisional ports.

Systems optimization constituted another accomplishment of the Corporation. The Corporation is now equipped with state-of-the-art computer technology to ensure efficiency. Thanks to a broad-based and cost-conscious orientation at the National Office, a substantial saving was made against the operating budget of the office.

The Corporation welcomed the new decade, stronger and more prepared. The nineties will usher in new challenges for the Corporation. Coming years will likely be characterized by heightened environmental awareness. Urban waterfronts from coast to coast will undoubtedly experience increasing pressures from all directions. Having initiated land-use plans, Ports Canada ports will be better positioned to respond to most of these demands.

The globalization of trade will ironically bring about attendant protectionism and balkanization. Canada's welfare lies in aligning itself with her largest trading partner, the United States. The Corporation is gearing up to reap the benefits of an expanded trade era.

All in all, the decade gone by was filled with change, dynamism, and advancement for the country and for the Corporation. Last year, in particular, will be remembered with fond memories for our unequivocal accomplishments. We embrace the new year and the closing decade of the century and millennium with optimism and excitement.

In accordance with our statutory obligation, it is a pleasure for us to inform the Board of Directors, and the shareholder, that the Corporation made measurable progress in achieving its objectives; and the necessary procedures and controls are in place to ensure the safeguard of the Corporation's assets. We are particularly pleased to report that the Corporation's auditors completed a Special Examination and provided reasonable assurance, that there were no significant deficiencies in the systems and practices examined.

Once again, it goes without saying that our successes would not have been possible without a supportive Board of Directors and a dedicated staff. Most importantly, however, we acknowledge our loyal port users and clients who gave the Corporation a reason for being — yesterday, today, and for decades to come.

J. M. Tessier

Jean Michel Tessier

Canada Ports Corporation

Canada Ports Corporation is comprised of seven non-corporate ports, collectively referred to as divisional ports. They are located in Belledune, N.B.; Chicoutimi/Baie des Ha! Ha!, Sept-Îles, Trois-Rivières, Quebec; Port Colborne, Prescott, Ontario; and Churchill, Manitoba. Divisional ports play a key role in their respective regional and local economies. Local industries are dependent on facilities provided by ports and are often the primary link to both national and international markets.

Dry bulk handled at the divisional ports include important resource products such as grain, salt, various mineral ores and coal. Liquid bulk is made up primarily of petroleum products. Forest products are important examples of general cargo handled at some of these ports.

Divisional ports are an integral part of the Ports Canada system. While their sphere of influence is often more regional than national, the overall economic and social health of the community is clearly linked to the port.

Traffic Review

In 1989, divisional ports handled a total of 30.2 million tonnes of cargo, a slight decrease of 1 percent from the 1988 level of 30.5 million tonnes. This total represents 17.3 percent of the total traffic handled by Ports Canada ports. Of this amount, 3.5 million tonnes, or 13 percent was handled at berthing facilities owned by the Canada Ports Corporation.

Despite a fairly stable year, some events are worth noting. The Port of Trois-Rivières experienced a drop in total tonnage of 20 percent, attributable principally to the decline in grain exports. In 1989, the Port of Churchill was able to rebound from the substantial decline in grain handled in 1988 by handling close to 300,000 tonnes of grain, up from 50,000 tonnes. As well, a record setting volume of 200,000 tonnes of forest products was handled at the Port of Chicoutimi. Coal handled primarily by the Port of Sept-Îles, was down 11 percent to one million tonnes from last year's volume of 1.2 million tonnes.

A total of 1.4 million tonnes of petroleum products were handled in 1989, up slightly by 2 percent, while grain exports dropped further by 15 percent to 1.4 million tonnes.

Financial Overview

Overall port performance reflects the volume and mix of cargo handled. Total traffic decreased slightly this year, and the decline in grain shipments through several ports has had a negative impact on final operating results.

Revenue from Operations: Operating revenue for 1989 was $9.6 million, up 37 percent from the 1988 level of $7.0 million. This substantial increase reflects largely the relatively low base to which grain shipments fell in 1988, due to Prairie drought conditions, especially as it affected the ports of Churchill and Trois-Rivières.

Operating Expense: Operating expense decreased by $0.8 million or 6 percent to $12.2 million in 1989 from $13.0 million in 1988.

Loss from Operations: Loss from operations amounted to $2.6 million, compared to a $6.0 million loss from operations in 1988. This includes provision for depreciation of $2.7 million compared with $2.6 million in 1988.

Investment Income: Investment income, net of interest expense, of $5.3 million was up 15 percent from the 1988 figure of $4.6 million as a result of a larger base, coupled with higher yields.

Net Income: Prior to accounting for its share of the loss incurred by Ridley Terminals Inc. and including an unusual item for the adjustment of grants-in-lieu of municipal taxes of $1.2 million, the Corporation achieved a net income of $3.8 million, compared to a net loss of $1.3 million in 1988. The 1989 loss recorded on its investment in Ridley Terminals Inc. was $3.1 million compared to $4.4 million in 1988. In 1989 the net income of the Corporation was $0.8 million, compared to a net loss of $5.7 million in 1988.

Dividend: The Corporation paid a dividend of $74,000 in 1989, compared to $126,000 in 1988.

Contributed Capital: There has been no change in the balance of contributed capital since the close of the 1988 accounting period.

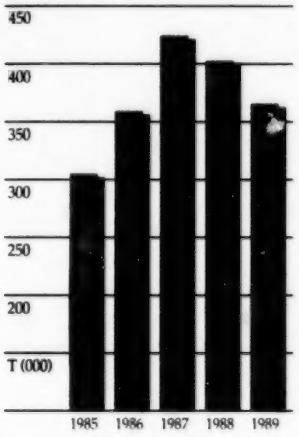
Interport Loan Fund: In 1989, the government of Canada provided the Corporation with a grant equivalent to the dividends, including interest paid by Ports Canada ports of $26.7 million, to establish an Interport Loan Fund. This fund, administered by the Corporation, is to provide financing for financially viable capital projects of the Ports Canada ports. The balance of the Interport Loan Fund as at December 31, 1989 is $28.6 million.

Capital Investments: The Corporation spent a total of $4.7 million on fixed assets in 1989, compared to $4.4 million in 1988. Grant funding of $2.4 million received in 1989 from the federal government was mainly for the dust control and the heat-plant conversion at the Port of Churchill.

Principal Operations: The principal operations of the Canada Ports Corporation are defined by the activities of the divisional ports.

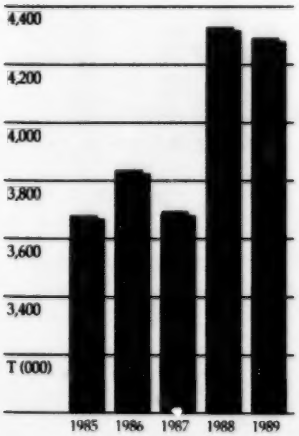
Port of Belledune

Total Traffic



Ports of Chicoutimi/ Baie des Ha! Ha!

Total Traffic



Port of Belledune

The Port of Belledune, located on the south shore of the Baie des Chaleurs in northeastern New Brunswick, is a bulk-handling facility used primarily by Brunswick Mining and Smelting. The company imports phosphate rock to be processed into fertilizer. Another major user includes Shell Canada, which brings in petroleum products through Belledune.

In 1989, the New Brunswick Electric Power Commission announced that the Port of Belledune had been chosen as the site for its new 450 megawatt thermal generating station. It is estimated that traffic at the port will increase substantially over the next five years with 1.5 million tonnes of coal needed each year to run the generating station.

Total traffic decreased in 1989 by 10 percent from 404,000 tonnes to 363,000 tonnes, primarily caused by lower imports of phosphate rock. Liquid products, gasoline and fuel oil, also experienced a slight drop to 66,000 tonnes from 72,000 tonnes. General cargo remained constant with lead ingots the prime commodity moving in this category.

Total operating revenue decreased slightly to $219,000 from $237,000 in 1988, while operating expenses increased from $129,000 to $153,000. The operating income was thereby reduced to $65,000 from $107,000 the year before. This was partially offset by higher investment income. Net income declined by 12 percent from $113,000 in 1988 to $100,000 in 1989.

Ports of Chicoutimi/ Baie des Ha! Ha!

The Port of Chicoutimi, located at the head of the Saguenay River, is an important economic and transportation center, playing a key role among the region's resource-based industry. The port is comprised of the Grande-Anse marine terminal, used mainly for the handling of general cargo, the Albert-Maltais wharf which handles petroleum products and the private wharf facilities owned by Alcan at Baie des Ha! Ha!. The main industries of the region are forest products and aluminum.

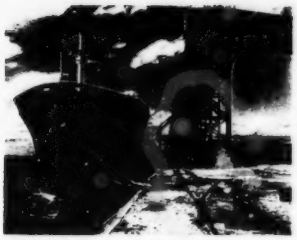
In 1989, the port's marketing efforts resulted in the attraction of two new major clients to the Grande-Anse terminal. Cascades-Jonquière began shipping woodpulp through the facility, while the Preibonka sawmill of the Abitibi-Price Company exported lumber to Europe.

Total traffic handled at the Port of Chicoutimi in 1989 was 485,000 tonnes, almost identical to the 1988 volume of 487,000 tonnes. General cargo increased 28 percent over 1988, while petroleum products and salt were down from the previous year.

Total operating revenue increased by 8 percent to $1.3 million from $1.2 million in 1988. Operating expenses increased from $1.2 million to $1.5 million, resulting in an operating loss of $260,000 for the year, compared to $31,000 in 1988. Net income was $383,000 in 1989, down by 25 percent from $509,000 in 1988.

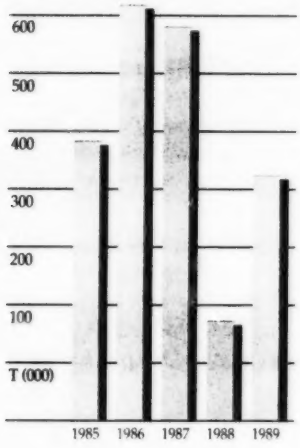
At Baie des Ha! Ha!, total traffic remained the same at 3.8 million tonnes. While dry bulk movements increased to 3.3 million tonnes, petroleum products dropped to 309,000 tonnes from 370,000 tonnes in 1988.

Total operating revenue increased slightly to $149,000 from $144,000 in 1988. Operating expenses decreased from $67,000 to $56,000, resulting in an operating profit of $93,000 for the year, compared to $77,000 in 1988. Net income was $125,000 in 1989, up 30 percent from $96,000 in 1988.



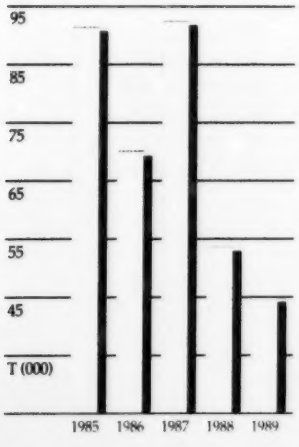
Port of Churchill

Total Traffic



Port Colborne

Total Traffic



Port of Churchill

The Port of Churchill, located on the western shore of Hudson Bay, celebrated its 60th year since the first shipment of grain left the port. The primary role of the port is the export of grain from the Prairies. In 1989, the port rebounded from the minimal 50,000 tonnes of grain in 1988, by handling 292,000 tonnes. Total port tonnage was 320,000 tonnes.

Although grain accounts for over 90 percent of Churchill's exports, the port does have a secondary role in the resupply of communities in the north. Communities on the western shore of Hudson Bay and in the Keewatin district of the Northwest Territories depend upon resupply services provided by the Northern Transportation Company Limited. This traffic declined slightly in 1989. The port welcomed again the cruise ship M.V. World Discoverer.

Meanwhile, 1989 saw the completion of Phase 1 of the dust control project which cost $2.2 million. Funds were provided by the federal government. The port also completed the first year of a three year health and safety program.

The increase in grain traffic had the expected effect on financial results as operating revenue rose from $3.1 million in 1988 to $4.0 million in 1989. At the same time, operating expenses decreased from $5.8 million to $5.4 million. This combination of changes brought the 1988 operating loss of $4.7 million down to $1.5 million in 1989. Investment income of $377,000 and an unusual item as a result of a grants-in-lieu-of municipal taxes settlement of $1.2 million in favor of the port, produced a net income of $80,000 in 1989, compared to a net loss of $4.1 million in 1988.

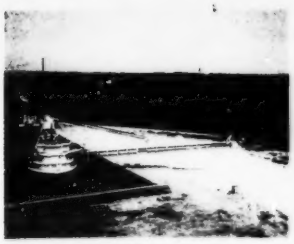
Port Colborne

Port Colborne is located at the southern end of the Welland Canal and is a specialist port dealing with domestic grain traffic. The grain elevator is leased out by the Canada Ports Corporation to Goderich Elevators Limited of Ontario, under the terms of a twenty year agreement. Goderich has recently upgraded the port facilities by adding a grain cleaner.

In 1989, the new $1.5 million full-service marina became operational. It is located at Gravelly Bay and serves transient and seasonal craft. This development was funded by the Small Craft Harbours Directorate of Fisheries and Oceans.

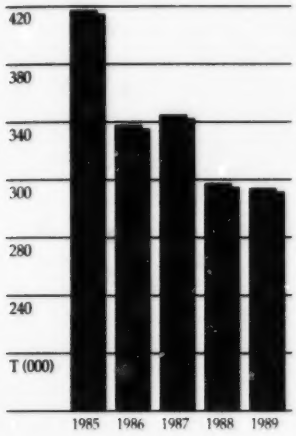
Total port traffic, which consists entirely of grain products, decreased 17 percent to 45,000 tonnes in 1989 from 54,000 tonnes in the previous year.

Total operating revenue increased slightly to $112,000 in 1989 from $98,000 in 1988 but operating expenses also increased from $438,000 to $502,000. Consequently, the operating loss increased by 15 percent from $339,000 in 1988 to $390,000 in 1989. This was offset by higher investment income, and net income went up from $116,000 in 1988 to $133,000 in 1989.



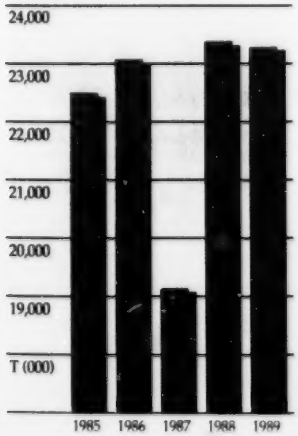
Port of Prescott

Total Traffic



Port of Sept-Îles

Total Traffic



Port of Prescott

The Port of Prescott lies 200 kilometers west of Montréal and 100 kilometers south of Ottawa on the St. Lawrence River. The port is managed cooperatively by the Canada Ports Corporation which operates the port facilities, and Elders Grain Company Limited which holds a lease on the grain elevator.

The primary function of the Port of Prescott is the handling of grain through its 154,000 tonne-capacity elevator. Under the terms of the leasing arrangement, Elders Grain operates the elevator, buying specialized crops directly from local farmers and trading in world markets, either on its own account or as agents for the Canadian Wheat Board or the Ontario Wheat Producers' Marketing Board. Under the Elders Grain diversification scheme, the elevator handled canary seed and alfalfa pellets for the first time in 1989.

Total port tonnage declined slightly to 289,000 tonnes from 294,000 tonnes in the previous year. This was as a result of a decrease in the handling of salt. Grain traffic, which consisted of approximately 75 percent of total port traffic in 1989, increased 9 percent to 215,000 tonnes. Construction of a new salt pad began, following positive results from a detailed environmental evaluation.

Total operating revenue declined in 1989 to $803,000 from $1.2 million due to the changeover in financial arrangements upon the leasing of the elevator to Elders Grain in May 1988. Operating expenses decreased from $1.8 million to $956,000. The overall result was an operating loss of $153,000 for the year, compared to $617,000 in 1988. Net income was $1.7 million in 1989, up from $965,000 in 1988, as a result of a 13 percent increase in investment income to $1.8 million.

Port of Sept-Îles

The Port of Sept-Îles is a deepwater port located on the north shore of the St. Lawrence River, 650 kilometers downstream from Québec City. It has a large natural harbour with a water depth of 80 meters and is open to navigation throughout the year. The port serves the mining industry of Quebec and Labrador, with iron ore accounting for 90 percent of total cargo. Coal and salt are also handled.

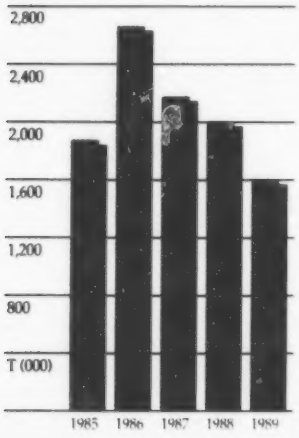
Total port traffic remained fairly constant in 1989 with cargo movements reaching 23.3 million tonnes. This was due to steady shipments of iron ore from both the Iron Ore Company of Canada and Wabush Mines. Dry bulk volumes reached 22.9 million tonnes in 1989. Coal transshipments were down slightly by 9 percent to a level of 797,000 tonnes. The port handled 697 vessels in 1989, about the same as in the previous year.

In September 1989, the construction of a $1.1 billion aluminum smelter in Sept-Îles by the consortium Alouette was announced jointly by the Premier of Quebec, the federal Minister of Transport and the Alouette partners. Federal involvement in the project will be approximately $90 million for port infrastructure. A second phase will double the initial capacity of the smelter, bringing it to 430,000 tonnes for a total investment of over $2 billion.

Total operating revenue rose to $1.2 million in 1989 from $1.1 million in 1988. Operating expenses increased to $1.5 million from $1.3 million due to preparations for the Alouette project. This caused the operating loss to reach $304,000 from $169,000 in 1988, and net income declined 44 percent to $95,000 for the year.

Port of Trois-Rivières

Total Traffic



Port of Trois-Rivières

The Port of Trois-Rivières is strategically located on the north shore of the St. Lawrence River, midway between Montréal and Québec City. The port is open to navigation throughout the year.

The main exports are newsprint, woodpulp and grain, which accounts for the bulk of the traffic. Trois-Rivières is the main newsprint production centre in the world. A large variety of commodities is imported to serve the local area, including cereals, petroleum products, salt and china clay.

Total port traffic in 1989, was 1.6 million tonnes, a decline of 20 percent from the 2.0 million tonnes handled in 1988. Grain decreased 37 percent from 1.3 million tonnes to 825,000 tonnes. Other dry bulk declined by 28 percent in 1989 to 206,000 tonnes. Liquid bulk, consisting of petroleum products and caustic soda, was up 83 percent to 454,000 tonnes. The port handled 100,000 tonnes of general cargo, 90 percent of which was paper. Not including grain, total traffic increased 14 percent from the previous year. A total of 497 vessels were handled in 1989.

Total operating revenue remained almost unchanged in 1989 at $1.9 million as a result of lower grain traffic. Through tight cost control, operating expenses were reduced from $2.1 million to $1.8 million, which turned the 1988 operating loss of $168,000 into an operating income of $97,000 in 1989. With the addition of better returns on investment, net income rose to $1.3 million in 1989, compared to $767,000 in 1988.

Auditors' Report

To the Honourable
Doug Lewis, P.C., M.P.
Minister of Transport

We have examined the balance sheet of Canada Ports Corporation as at December 31, 1989 and the statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Ports Corporation Act* and the by-laws of the Corporation.

Coopers + Lybrand

Chartered Accountants

Ottawa, Ontario
February 16, 1990

Balance Sheet as at December 31, 1989

(in thousands of dollars)

Assets	1989	1988
Current		
Cash	$ 244	$ 348
Investments (Note 3)	32,867	39,925
Accounts receivable	1,793	1,597
Due from Canada	426	2,482
Materials and supplies	264	239
	35,594	44,591
Investments (Note 3)	18,429	18,361
Long-term receivable (Note 4)	299	–
Investment in Ridley Terminals Inc. (Note 5)	1	3,083
Fixed assets (Note 7)	36,059	36,894
	90,382	102,929
Interport Loan Fund – Investments (Note 10)	28,568	–
	$ 118,950	$ 102,929
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 8)	$ 4,169	$ 3,908
Grants in lieu of municipal taxes	118	898
Due to Canada (Note 10)	–	12,668
	4,287	17,474
Accrued employee benefits	1,208	1,171
Loans from Canada (Note 9)	1,319	1,406
	6,814	20,051
Equity of Canada		
Contributed capital	73,638	73,638
Retained earnings	9,930	9,240
	83,568	82,878
Interport Loan Fund – Contra (Note 10)	28,568	–
	112,136	82,878
	$ 118,950	$ 102,929

On behalf of the Board:

A.R. Huntington

The Honourable A. R. Huntington
Chairman

J.M. Tessier

Jean Michel Tessier
President and Chief Executive Officer

Statement of Income and Retained Earnings

(in thousands of dollars)

for the year ended December 31, 1989	1989	1988
Revenue from operations	$ 9,566	$ 7,02[illegible]
Operating and administrative expenses – net	8,769	9,28[illegible]
Depreciation	2,690	2,592
Grants in lieu of municipal taxes	692	1,117
	12,151	12,997
Loss from operations	(2,585)	(5,971)
Investment income	5,369	4,750
Interest expense	(112)	(118)
Income (loss) before the undernoted	2,672	(1,339)
Share in loss of Ridley Terminals Inc. (Note 5)	(3,082)	(4,382)
Adjustment of grants in lieu of municipal taxes (Note 4)	1,174	–
Net income (loss)	764	(5,721)
Retained earnings at beginning of the year	9,240	15,087
Dividend to Canada (Note 10)	(74)	(126)
Retained earnings at end of the year	$ 9,930	$ 9,24[illegible]

Statement of Changes in Financial Position

(in thousands of dollars)

for the year ended December 31, 1989	1989	1988
Operating Activities		
Net income (loss)	$ 764	$ (5,721)
Items not affecting cash		
Depreciation	2,690	2,59[illegible]
Share in loss of Ridley Terminals Inc.	3,082	4,38[illegible]
Other	24	(218)
Decrease (increase) in operating components of working capital	(11,352)	13,927
Cash provided (required) by operating activities	(4,792)	14,962
Financing Activities		
Capital grants	2,754	2,775
Loans from Canada	(87)	(81[illegible]
Dividend to Canada	(74)	(12[illegible]
Cash provided by financing activities	2,593	2,568
Investing Activities		
Additions to fixed assets	(4,739)	(4,353)
Proceeds on disposal of fixed assets	75	30
Long-term receivable	(299)	–
Cash required by investing activities	(4,963)	(4,323)
Increase (decrease) in cash and short-term investments	(7,162)	13,207
Cash and short-term investments at beginning of the year	40,273	27,066
Cash and short-term investments at end of the year	$ 33,111	$ 40,273

Notes to Financial Statements

December 31, 1989

1. Canada Ports Corporation Act

Canada Ports Corporation is established under the *Canada Ports Corporation Act*. The Act provides for the establishment of local port corporations to manage and operate selected ports.

The Corporation is named in Part II of Schedule III of the *Financial Administration Act* and is exempt from income tax.

2. Significant Accounting Policies

(a) Financial statements
The financial statements of the Corporation include the accounts of the ports and other facilities under its administration, as well as those of the Interport Loan Fund. The activities of the local port corporations are excluded from the financial statements from the date of their establishment.

(b) Investments
The investments are shown at amortized cost whereby premiums or discounts from par value are amortized over the periods to maturity.

(c) Investment in Ridley Terminals Inc.
The investment in Ridley Terminals Inc. is accounted for on the equity basis.

(d) Fixed assets
Fixed assets are recorded at cost except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates based on the estimated useful lives of the assets.

(e) Pension costs
All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

(f) Grants in lieu of municipal taxes
The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are finalized after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

(g) Employee benefits
The Corporation accrues in its accounts the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees under its collective agreements, or in accordance with its policy.

3. Investments

Investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. As at December 31, 1989, and 1988, the market value of the current investments approximates their amortized cost. At December 31, 1989, the market value of the long-term investments is $21,080,000 ($20,232,000 in 1988).

4. Long-term Receivable

In 1989, the Municipal Grants Division of Public Works Canada finalized an audit of grants in lieu of municipal taxes. This audit resulted in an adjustment of $1,174,000 in favour of the Corporation for the years 1985 to 1989; $800,000 of which had been accrued in previous years. This accrual has now been reversed and the balance of $374,000 has been set up as a long-term receivable from the Local Government District of Churchill in Manitoba as follows:

	(in thousands of dollars)
Non-interest bearing receivable, recoverable in equal annual instalments over the next five years	$ 374
Less: Current portion	(75)
	$ 299

5. Investment in Ridley Terminals Inc.

Ridley Terminals Inc. (RTI) was incorporated on December 18, 1981, under the *Canada Business Corporations Act* for the purpose of constructing and operating coal terminal facilities on Ridley Island in Prince Rupert, British Columbia. RTI is exempt from income taxes.

RTI's throughput revenue is currently dependent upon the production of two coal producers. The coal producer who currently ships the larger tonnage through RTI's facilities has entered into a price arbitration process with its customers. The results of this arbitration process could have a significant economic impact on the coal producer, which in turn could affect the relations of RTI with this customer. The continued operations of RTI and the current carrying value of its terminal facility are dependent upon a viable level of coal throughput from its customers and continued financial support from the Government of Canada.

At December 31, 1989, the Corporation had acquired 90% of the issued common shares of RTI at a cost of $900, and 100% of its Class A preference shares at a cost of $23,020,500. As of that date, Fednav Limited had acquired 10% of the issued common shares of RTI for $100, and 100% of its Class B preference shares for $23,020,500.

The Class A preference shares carry a fixed cumulative dividend at a rate of 18% per annum on their stated value. The Class B preference shares carry a fixed cumulative dividend at a rate sufficient to net 20% after tax per annum on their stated value. The annual dividend of 20% on the Class B preference shares is a net sum after deducting an amount equal to the prevailing aggregate federal and provincial corporate income and profits taxes applicable to the dividend.

Holders of the Class A and B preference shares are entitled to interest at the respective dividend rates on dividends accrued but not paid. Unpaid interest compounds annually at the same respective rates. Interest has accrued since April 30, 1982. The preference shares are redeemable at any time at

their stated value plus accrued dividends and unpaid interest thereon. Preference dividends and related interest in arrears at December 31, 1989, calculated at tax rates prevailing as at that date with respect to the Class B shares amount to:

	(in thousands of dollars)	
	1989	1988
Class A preference shares held by Canada Ports Corporation	$ 48,826	$ 37,452
Class B preference shares held by Fednav Limited	101,937	81,853
	$ 150,763	$ 119,30

The Corporation's investment in RTI is accounted for on the equity basis. Application of this method for years in which RTI has a deficit requires that the Corporation recognize a share of the results of operations of RTI equal to its participation in the total equity of RTI which, at December 31, 1989, was 50%. In 1989 the Corporation's share in the accumulated losses of RTI exceeded the Corporation's net investment. As a result, the investment has been written down to a nominal value of $1,000. For years in which RTI has retained earnings, the Corporation's share of the results of operations will be proportionate to its shareholding in common shares, after recognizing the dividend requirements of the two classes of preference shares.

The investment in Ridley Terminals Inc. is composed of:

	(in thousands of dollars)	
	1989	1988
Balance at beginning of the year	$ 3,083	$ 7,465
Share in loss	(3,082)	(4,382)
Balance at end of the year	$ 1	$ 3,083

A summary of the balance sheet of RTI as at December 31, as reported in its audited financial statements shows:

	(in thousands of dollars)	
	1989	1988
Assets		
Current	$ 3,128	$ 4,772
Fixed	207,735	213,311
Other	447	6
	$ 211,310	$ 218,150
Liabilities		
Current	$ 5,045	$ 3,481
Long-term debt	213,063	207,323
	218,108	210,804
Shareholders' Deficiency	(6,798)	7,346
	$ 211,310	$ 218,150

RTI has two long-term financing agreements with a major Canadian bank as follows:

(a) a construction credit loan agreement which is guaranteed unconditionally by Canada and is further secured by a $250,000,000 subordinate fixed and floating charge collateral demand debenture. On July 1, 1985, all borrowings converted to a fifteen year term loan with specified semi-annual repayments commencing July 31, 1991 through January 31, 2000. Interest on any bank loan is at the bank's prime rate, payable monthly. The Bankers' Acceptance fee is currently 1/2% per annum.

(b) a revolving credit loan agreement which provides a $25,000,000 credit facility for advances on a revolving basis until June 30, 1990 at which time all borrowings will convert to a term loan repayable in specified semi-annual instalments commencing July 31, 1990 through January 31, 1993. Interest on bank loans is at the bank's prime rate plus 1/4% per annum, payable monthly. The Bankers' Acceptance fee is currently 3/4% per annum.

This agreement is secured by a $350,000,000 first fixed and floating charge collateral demand debenture with the terminal facility as security and an assignment of the lease from the Prince Rupert Port Corporation.

As at December 31, 1989, drawings under these agreements were as follows:

(in thousands of dollars)

	1989	1988
(a) Construction credit loan agreement–		
Bankers' acceptances, net of unamortized interest charges	$ 198,399	$ 198,818
(b) Revolving credit loan agreement–		
Bank loans	1,300	1,800
Bankers' acceptances, net of unamortized interest charges	15,464	7,930
	16,764	9,730
	215,163	208,548
Less: Current portion of long-term debt	2,100	1,225
	$ 213,063	$ 207,323

Based on the amounts borrowed under the credit facilities as at December 31, 1989, annual principal repayments over the next five years amount to $2,100,000 in 1990, $5,460,000 in 1991, $11,288,000 in 1992, $12,915,000 in 1993 and $14,963,000 in 1994.

The results of operations of RTI for the year ended December 31, 1989, in comparison with the year ended December 31, 1988, are as follows:

(in thousands of dollars)

	1989	1988
Revenue from operations	$ 35,769	$ 30,676
Operating and administrative expenses	17,421	12,675
Depreciation	5,947	6,746
Interest expense	26,545	20,020
	49,913	39,441
Net loss	$ (14,144)	$ (8,765)

6. Debentures of Saint John Harbour Bridge Authority

The Saint John Harbour Bridge Authority (the Authority) is indebted in the amount of $13,793,000 (1988 – $13,921,000) to the Corporation which in turn is indebted to Canada in the same amount, in accordance with the provisions of Vote L106B, *Appropriation Act* No. 7, 1967, 1967-68, c.8. The interest and repayment terms of the parliamentary advances to the Corporation are identical to those of the debentures of the Authority. Under the terms of the agreement between Canada and the Authority, Canada, in effect, has guaranteed the repayment of both principal and interest on the debentures. Accordingly, the debentures received have been offset against the advances and loans payable to Canada such that they are not reflected as an asset and a liability on the balance sheet. Interest income and expense of $947,000 (1988 – $955,000) have been similarly offset and do not appear in the statement of income and retained earnings.

In 1989, Department of Finance and Treasury Board of Canada proceeded with a submission to assign the debentures of the Authority to Canada and to cancel the related certificates of indebtedness of the Corporation. As at December 31, 1989, the submission was pending approval by Canada.

7. Fixed Assets

a) Summary

(in thousands of dollars)

	Depreciation rates %	Cost	Accumulated Depreciation	1989 Net	1988 Net
Land	–	$ 4,482	$ –	$ 4,482	$ 4,426
Dredging	2.5-6.7	9,488	6,013	3,475	3,801
Berthing structures	2.5-10	34,515	17,689	16,826	17,564
Buildings	2.5-10	16,371	12,184	4,187	3,841
Utilities	3.3-10	2,791	1,428	1,363	1,466
Roads and surfaces	2.5-10	2,273	1,702	571	676
Machinery and equipment	5-100	19,979	15,861	4,118	3,805
Office furniture and equipment	20	3,553	2,759	794	609
Works under construction	–	243	–	243	706
		$ 93,695	$ 57,636	$ 36,059	$ 36,894

(b) Capital grants

During the year, the Corporation received capital grants totalling $2,754,000 (1988 – $2,775,000) towards the construction of fixed assets.

(c) Capital expenditures commitments

Contractual obligations for the completion, construction and purchase of fixed assets are estimated at $519,000 of which most will be expended in the year ending December 31, 19

8. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities are deferred revenues of $679,000 (1988 – $467,000) and current portion of long-term liabilities of $87,000 (1988 – $81,000).

9. Loans from Canada

(in thousands of dollars)

	1989	1988
Loans bearing interest at 6.44% and 9.09%, repayable in blended annual instalments of principal and interest of $193,000 and maturing on December 31, 2000	$ 1,406	$ 1,487
Less: current portion	(87)	(81)
	$ 1,319	$ 1,406

Principal repayment requirements over the next five years amount to $87,000 in 1990, $93,000 in 1991, $100,000 in 1992, $108,000 in 1993 and $116,000 in 1994.

10. Interport Loan Fund

In 1988, the Treasury Board of Canada authorized that the dividend payments to be made in 1988 and 1989 by Canada Ports Corporation and the local port corporations, be used to establish an interport loan fund (the Fund). The purpose of the Fund is to provide financing for financially viable capital projects of the Corporation and the local port corporations.

As at December 31, 1988, the Corporation held $12,668,000 representing the 1988 dividend payments and interest earned thereon for these corporations, pending approval by Canada. Of this amount, $126,000 represented the dividend paid by Canada Ports Corporation.

In 1989, the Corporation remitted to Canada the $12,668,000 owing and a further $13,982,000 representing the 1989 dividend payments and interest earned thereon from Canada Ports Corporation and the local port corporations. Of the latter amount, $74,000 represented the dividend paid by Canada Ports Corporation. At the same time, the Corporation received an equivalent grant from Canada for the establishment of the Fund.

The Fund was created on May 19, 1989, and its balance as at December 31, 1989 is composed of:

	(in thousands of dollars)
Contribution by Canada	$ 26,650
Investment income	1,918
	$ 28,568

The assets of the Fund, which are direct and guaranteed securities of Canada, are shown at amortized cost. As at December 31, 1989 the market value of the investments approximates their amortized cost.

11. Related Party Transactions

Through common ownership, the Corporation is related to all Government of Canada created departments, agencies and crown corporations.

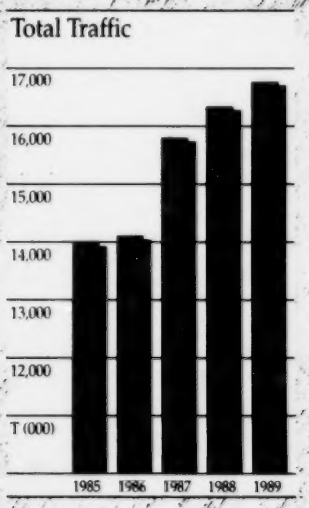
In accordance with the *Canada Ports Corporation Act*, operating and administrative costs incurred by the Corporation in the amount of $6,225,000 have been recovered from the local port corporations in 1989 ($6,511,000 in 1988). These recoveries are offset against the related expenses. In addition, investment income of $5,369,000 ($4,750,000 in 1988) was earned on Government of Canada securities and interest charges of $112,000 ($118,000 in 1988) were paid to Canada.

12. Contingencies

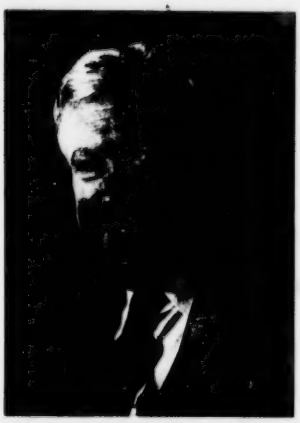
Claims aggregating approximately $1,709,000 in respect of lawsuits, guarantees, employee agreements, damages allegedly suffered on the Corporation's property and sundry other matters in dispute have been received by the Corporation but are not reflected in the accounts. In the opinion of the Corporation, the final outcome of such claims should not result in any material financial liability.

The Corporation assumes all risks with respect to workers' compensation claims. Any costs arising from such claims are recorded in the accounts in the year they can be reasonably estimated.

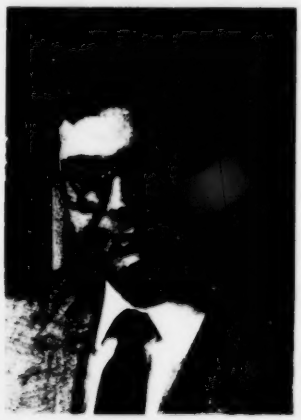
Halifax Port Corporation



Joint Message from the Chairman of the Board and the President and Chief Executive Officer



Donald A. Parker



David F. Bellefontaine

The Halifax Port Corporation is very pleased to report on its operating results for 1989, its most successful year on record.

The Port of Halifax has an excellent reputation the world over as an efficient international port for all types of vessels. Even under the extremely competitive nature of its business, in 1989 the port has achieved real growth in terms of cargo tonnage, market share and net income. Over the past five years, the port has doubled its volume of containerized cargo and has attracted fourteen new shipping lines to its worldwide network.

The positive results in 1989 represent yet another milestone as the fourth consecutive record-breaking year in terms of volume of container tonnage handled. More Canadian containerized cargo now moves over the Port of Halifax than any other port.

Major accomplishments in 1989 include the Pier "B" redevelopment project, which provided an additional 366 meters of berthing and 4.7 hectares of cargo handling area for containerized cargo operations; and the announcement by terminal operators that two new gantry cranes have been ordered for Halifax. This "team" approach to investment in facilities and equipment in the port reflects the continuing commitment by the parties and their positive attitude toward the port's future.

In accordance with our statutory obligation, it is a pleasure for us to inform the Board of Directors and the shareholder, that the Corporation made measurable progress in achieving its objectives; and that the necessary procedures and controls are in place to ensure the safeguard of the Corporation's assets.

Capital Expenditures

Capital expenditures in 1989 amounted to $5.4 million, of which $3.7 million was expended in completing the Pier "B" redevelopment project, to support the ever growing requirements of the container trade. The final work will be undertaken on Pier "B" in 1990 when curved crane rails will be installed to join Piers "C" – "B" into one contiguous container terminal operation.

The remaining $1.7 million of capital was expended on the harbour dredging project ($ .6 million), purchase of shed 9 ($ .5 million), and miscellaneous plant and equipment requirements. All capital projects were funded from port working capital in 1989. Over the past ten years, $53.7 million has been spent on capital projects in the Port of Halifax.

Cargo Highlights

For the fourth consecutive year, cargo levels reached a new record. Total port cargo was 16.8 million tonnes, up from the previous record of 16.2 million tonnes set in 1988.

Imports and exports of crude and refined oils amounted to 8.6 million tonnes, up by 4.1 percent from 8.3 million tonnes recorded the previous year. Exports of gypsum increased slightly to 3.2 million tonnes, representing 1.1 percent over 1988.

Containerized cargo reached a new record in 1989 at 3.9 million tonnes, for an increase of 9.9 percent over the previous record of 3.5 million tonnes set in 1988. Over the past five years, container cargo has increased by 96 percent, a remarkable achievement in an extremely competitive environment.

Financial Results

Revenue from operations amounted to $18.2 million, up from the $14.8 million recorded in 1988, particularly due to record cargo levels and new terminal lease agreements. Total expenses were $14 million, as compared to $11.9 million in 1988. Income from operations rose sharply to $4.2 million, an increase of 44.8 percent from the $2.9 million recorded in 1988. Net income was $4.6 million, an increase of $1.5 million from the preceding year.

Working capital remained relatively unchanged at $6.9 million during the year; short term investments increased by $1.3 million to reach $7.1 million at year's end.

Personal Contributions

Once again the team approach at the Port of Halifax has proven very effective. Thanks go to all port workers and the marine community for sharing their expertise and energies with the Halifax Port Corporation.

The future of the Port of Halifax has never looked brighter. We call on all industry players to assure the success of the port in the new decade ahead.

Donald A. Parker
Chairman of the Board

David F. Bellefontaine
President and Chief Executive Officer

Auditors' Report

To the Honourable
Doug Lewis, P.C., M.P.
Minister of Transport

We have examined the balance sheet of the Halifax Port Corporation as at December 31, 1989, and the statements of income and surplus, and changes in financial position, for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1989, and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with the *Financial Administration Act* and regulations, the *Canada Ports Corporation Act*, and the by-laws of the Corporation.

Jean Raymond

Chartered Accountants

Halifax, Nova Scotia
January 26, 1990

Balance Sheet as at December 31, 1989

Assets	1989	1988
Current		
Cash	$ 239,827	$ 230,462
Investments (Note 3)	7,134,531	5,794,295
Accounts receivable	2,604,428	2,736,263
Materials and supplies	133,269	126,167
	10,112,055	8,887,187
Investments (Note 3)	33,510	33,405
Fixed (Note 4)	59,273,611	56,115,970
	$ 69,419,176	$ 65,036,562
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 1,699,611	$ 1,159,545
Grants in lieu of municipal taxes	250,008	71, 664
Deferred revenues	940,711	928,571
Current portion of long term debt	367,462	334,057
	3,257,792	2,493,837
Accrued employee benefits	664,314	679,499
Loans from Canada (Note 5)	3,118,714	3,486,176
	7,040,820	6,659,512
Equity of Canada		
Contributed capital	53,796,865	53,796,865
Surplus	8,581,491	4,580,185
	62,378,356	58,377,050
	$ 69,419,176	$ 65,036,562

On behalf of the Board:

Donald A. Parker
Chairman

David F. Bellefontaine
President and Chief Executive Officer

Statement of Income and Surplus

year ended December 31, 1989	1989	1988
Revenue from operations	$ 14,851,629	$ 13,286,341
Operating and administrative expenses	7,440,556	7,652,15
Depreciation	2,215,426	1,934,25
Grants in lieu of municipal taxes	978,444	790,963
	10,634,426	10,377,371
Income from operations	4,217,203	2,908,970
Investment income	737,672	594,105
Interest expense	(382,023)	(412,39
Gain on disposal of fixed assets	7,123	2,45
	362,772	184,169
Net income before extraordinary item	4,579,975	3,093,139
Extraordinary item		
Gain on sale of land	–	266,135
Net income	4,579,975	3,359,27
Surplus, beginning of year	4,580,185	1,379,9
	9,160,160	4,739,240
Dividend to Canada	578,669	159,055
Surplus, end of year	$ 8,581,491	$ 4,580,185

Statement of Changes in Financial Position

year ended December 31, 1989	1989	1988
Operating activities		
Net income before extraordinary item	$ 4,579,975	$ 3,093,13
Depreciation	2,215,426	1,934,257
Other	(22,413)	55,628
Decrease in operating components of working capital	855,283	136,250
Cash provided by operating activities	7,628,271	5,219,274
Financing activities		
Loans from Canada	(334,057)	(303,68
Dividend to Canada	(578,669)	(159,055)
Cash applied to financing activities	(912,726)	(462,742)
Investing activities		
Proceeds from sale of land	–	266,135
Additions to fixed assets	(5,378,441)	(4,852,97
Other	12,497	7,25
Cash applied to investing activities	(5,365,944)	(4,579,586)
Increase in cash and short-term investments	1,349,601	176,946
Cash and short-term investments, beginning of year	6,024,757	5,847,811
Cash and short-term investments, end of year	$ 7,374,358	$ 6,024,757

Notes to Financial Statements

year ended December 31, 1989

1.

In accordance with the *Canada Ports Corporation Act*, sections 6.1 and 6.2, a petition for the establishment of a local port corporation at the Port of Halifax was approved and the Halifax Port Corporation was established effective June 1, 1984.

In accordance with the *Canada Ports Corporation Act*, the assets, liabilities and equity were transferred at their carrying values in the accounts of the Canada Ports Corporation – Port of Halifax to Halifax Port Corporation.

2. Significant Accounting Policies

(a) Investments
The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to maturity.

(b) Fixed assets
Fixed assets are recorded at cost, except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates based on the estimated useful lives of the assets.

(c) Pension costs
All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions for pensions are recognized in the accounts on a current basis.

(d) Grants in lieu of municipal taxes
The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

(e) Employee benefits
The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay, annual leave, and overtime compensatory leave, which are payable to its employees in subsequent years under its collective agreements or in accordance with its policy.

3. Investments

	1989		1988	
	Amortized Cost	Face Value	Amortized Cost	Face Value
Short term	$ 7,134,531	$ 7,474,800	$ 5,794,295	$ 6,039,800
Long term	$ 33,510	$ 33,498	$ 33,405	$ 34,270

4. Fixed Assets

	Depreciation Rates	Cost	Accumulated Depreciation	1989 Net Book Value	1988 Net Book Value
Land		$ 24,441,887	$ –	$ 24,441,887	$ 23,324,988
Dredging	2.5 - 6.7%	3,424,519	2,302,408	1,122,111	372,477
Berthing structures	2.5 - 10%	35,120,246	18,494,982	16,625,264	14,400,469
Buildings	2.5 - 10%	17,336,166	11,373,528	5,962,638	5,772,861
Utilities	3.3 - 10%	5,865,260	2,221,099	3,644,161	2,502,056
Roads and surfaces	2.5 - 10%	8,481,260	3,984,999	4,496,261	3,345,538
Machinery and equipment	5 - 100%	10,794,759	8,114,588	2,680,171	1,616,485
Office furniture and equipment	20%	998,782	845,974	152,808	181,079
Projects under construction		148,310	–	148,310	4,600,017
		$106,611,189	$ 47,337,578	$ 59,273,611	$ 56,115,970

5. Loans from Canada

	1989	1988
10% loan maturing on December 31, 1996, repayable in blended annual principal and interest payments of $716,080	$ 3,486,176	$ 3,820,2
Less current portion repayable within one year	367,462	334,057
	$ 3,118,714	$ 3,486,176

The loans from Canada are unsecured.

6. Comparative Figures

Certain of the 1988 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1989.

Board of Directors

Donald A. Parker *
Chairman
Businessman
Dartmouth, N.S.

Paul M. Murphy, Q.C. *
Vice-Chairman
Partner
Patterson Kitz
Halifax, N.S.

Florence R. Irwin **
Partner
Canadian Annuity
Quotations and Insurance
Services Ltd.
Bedford, N.S.

Michael J. Proude
President - Local 269
International Longshoremen's Association
Dartmouth, N.S.

Lois A. Glibbery **
Property Marketing Specialist
Royal LePage Real Estate
Services Ltd.
Halifax, N.S.

Harald A. Norve *
President
H.A. Norve & Associates Ltd.
Halifax, N.S.

Captain Ernest A. Coates **
Retired Marine Superintendent
Esso Petroleum Canada
Dartmouth, N.S.

* Executive Committee
** Audit Committee

Officers of the Corporation

Donald A. Parker
Chairman

Paul M. Murphy
Vice-Chairman

David F. Bellefontaine
Port Manager
President and Chief Executive Officer

Lorraine E. Brenton
Corporate Secretary

Claude L. Ball
Senior Vice-President and
Chief Operating Officer

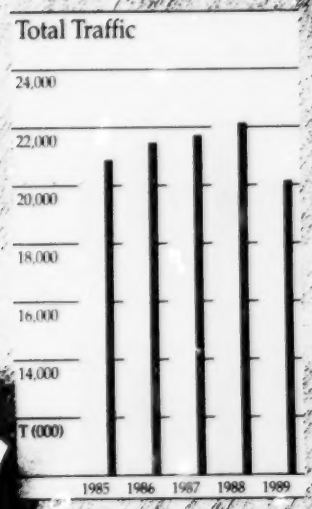
Robert A. Kaye
Vice-President, Marketing

Richard T. Pentland
Vice-President, Engineering and Works

Dennis W. Creamer
Vice-President, Finance and Administration

Peter J. MacKeigan
Chief Legal Officer

Montréal Port Corporation



Joint Message from the Chairman of the Board and the General Manager and Chief Executive Officer

André Gingras

Dominic J. Taddeo

As we prepare for the excitement and challenges of the decade that lies ahead, 1989 will be remembered throughout the maritime industry as a year marked by increased competition on the North Atlantic.

The total volume of traffic handled at the Port of Montréal in 1989 was 20.4 million metric tonnes, compared with 22.2 million tonnes in 1988, a decrease of approximately 1.8 million tonnes or 8.2 percent.

A decrease in containerized cargo traffic was naturally disappointing but not unexpected. It was a drop in grain traffic, however, that was largely responsible for the decrease in total tonnage figures and had the most impact on revenues.

Traffic in the general cargo category totalled 6.6 million tonnes in 1989, a decrease of 300,000 tonnes or 4.6 percent compared with 1988. After six consecutive record-setting years, our containerized cargo traffic decreased by 370,000 tonnes or 6.4 percent in 1989. It totalled 5.4 million tonnes, compared with 5.7 million tonnes in 1988.

The Port of Montréal has undertaken several initiatives to meet this challenge head-on: the creation of a port railway users' committee has brought about a significant decrease in the number of necessary interswitchings at the port, resulting in faster transit times to Toronto, Detroit and Chicago; the first phase of the port's EDI project has progressed to the point where data is to be transmitted computer-to-computer by the end of March 1990; rigid cost controls and our ongoing commitment to streamlining are reflected in our operating costs. Between 1985 and 1989, they went from $47.9 million to $54.8 million, an increase of $6.9 million or 14.2 percent. Over this same period, inflation increased by 18.8 percent.

Measures such as these have allowed us to enhance our competitive situation, and the improvement of our incentive plan in 1990 will continue to stimulate container trade.

Petroleum products traffic totalled 7 million tonnes in 1989, down 300,000 tonnes or 4.5 percent from 1988, due mainly to a drop in crude oil. Grain traffic at 1.7 million tonnes in 1989 decreased 1.3 million tonnes or 43.6 percent compared with 1988. In fact, one must go as far back as 1944 to find a year worse than 1989 for the movement of grain at the Port of Montréal.

The main factors that contributed to this decrease included the effects of 1988's drought on the Prairies, lower than anticipated grain shipments to traditional customers, and increased movements via western Canada with its added elevator capacity and lower inland transportation costs.

Traffic in the other dry and liquid bulk category totalled 5.1 million tonnes, up 100,000 tonnes.

Financial Results

Revenue from operations totalled $53 million and operating and administrative expenses amounted to $54.8 million in 1989, resulting in an operating loss of $1.8 million, the first since 1979 when it was $2.2 million. Net investment income amounted to $7 million resulting in a net income of $5.2 million.

Expenses in 1989 increased 4.2 percent, which was less than the rate of inflation of 5 percent. Grants in lieu of municipal taxes paid to the City of Montréal combined with higher depreciation costs were the main reasons for this increase. Capital expenditures at $15.2 million reflect our continuing commitment to expanding and improving our facilities.

In accordance with our statutory obligation, it is a pleasure for us to inform the Board of Directors, and the shareholder, that the Corporation has made measurable progress in achieving its objectives, and that necessary procedures and controls are in place to ensure the safeguard of the Corporation's assets.

Outlook

As the 1990s bring on different and increasingly complex challenges, the Port of Montréal, with its strategic location right on the doorstep of North America's industrial heartland, is ideally positioned to handle all types of traffic quickly, efficiently, safely and at extremely competitive prices.

For the containerized cargo sector, taking into account the competitive situation that remains very fierce, we anticipate an increase that should be in line with forecasted economic growth. As for grain, we anticipate that it should return to at least the level attained in 1988.

In conclusion, we would like to take this opportunity to extend our heartfelt thanks to our employees and to all members of the port community for their tireless efforts to ensure the success of the Port of Montréal, a major world port and Canada's number one container port.

André Gingras
Chairman of the Board

Dominic J. Taddeo
General Manager and Chief Executive Officer

Auditors' Report

To the Honourable
Doug Lewis, P.C., M.P.
Minister of Transport

We have examined the balance sheet of the Montréal Port Corporation as at December 31, 1989 and the statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Furthermore, in our opinion, the transactions of the Corporation that have come under our notice in the course of our examination of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, and with the charter and by-laws of the Corporation.

Samson Bélair / Deloitte & Touche

Chartered Accountants

Montréal, Quebec
February 9, 1990

Balance Sheet as at December 31, 1989

(in thousands of dollars)

Assets	1989	1988
Current		
Cash	$ 1,340	$ 692
Investments (Note 3)	21,083	28,871
Accounts receivable	10,240	9,176
Materials and supplies	940	872
	33,603	39,611
Investments (Note 3)	39,749	39,572
Fixed assets (Note 4)	156,989	153,618
Other assets	579	499
	$ 230,920	$ 233,300
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 5)	$ 8,117	$ 10,254
Grants in lieu of municipal taxes	820	2,386
	8,937	12,640
Accrued employee benefits	5,206	5,329
Loans from Canada (Note 6)	6,129	6,561
	11,335	11,890
Equity of Canada		
Contributed capital	183,569	183,569
Retained earnings	27,079	25,201
	210,648	208,770
	$ 230,920	$ 233,300

On behalf of the Board:

André Gingras
Chairman

Dominic J. Taddeo
General Manager and Chief Executive Officer

Statement of Income

(in thousands of dollars)

year ended December 31, 1989	1989	1988
Revenue from operations	$ 53,034	$ 57,2
Operating and administrative expenses	40,159	39,38
Depreciation	10,503	9,838
Grants in lieu of municipal taxes	4,125	3,403
	54,787	52,626
Income (loss) from operations	(1,753)	4,642
Investment income	7,372	7,96
Interest expense	(436)	(45
	6,936	7,509
Incor e before unusual item	5,183	12,151
Adjustment of grants in lieu of municipal taxes	–	1,915
Net income	$ 5,183	$ 14,066

Statement of Retained Earnings

(in thousands of dollars

year ended December 31, 1989	1989	1988
Balance at beginning	$ 25,201	$ 15,407
Net income	5,183	14,066
Dividend	3,305)	(4,272)
Balance at end	$ 27,079	$ 25,2

Statement of Changes in Financial Position

(in thousands of dollars)

year ended December 31, 1989	1989	1988
Inflow (outflow) of cash related to the following activities:		
Operating		
Net income	$ 5,183	$ 14,066
Items not affecting cash		
Depreciation	10,503	9,838
Other	687	142
	16,373	24,046
Changes in non-cash operating working capital items	(5,211)	(1,987)
	11,162	22,059
Financing		
Repayment of current portion of loans from Canada	(407)	(383)
Increase (decrease) in accrued employee benefits	(123)	104
Dividend paid	(3,305)	(4,272)
	(3,835)	(4,551)
Investing		
Acquisition of long-term investments	(177)	(177)
Acquisition of fixed assets	(15,029)	(24,423)
Deposit on land to be sold	375	–
Proceeds on disposal of fixed assets	468	51
Receipt of other assets	36	28
Acquisition of other assets	(140)	(81)
	(14,467)	(24,602)
Decrease in cash	(7,140)	(7,094)
Cash at beginning	29,563	36,657
Cash at end	$ 22,423	$ 29,563

Cash comprises cash and short-term investments.

Notes to Financial Statements

year ended December 31, 1989

1. Status

The Montréal Port Corporation (the Corporation) was incorporated by letters patent in accordance with paragraph 6.2(1) of the *Canada Ports Corporation Act* on July 1, 1983.

Under Section 6.5 of the same Act, on the establishment of a local port corporation, all rights, obligations and liabilities of the Canada Ports Corporation in relation to that harbour shall become rights, obligations and liabilities of the local port corporation and the administration of all such property and works within the limits of that harbour as are administered by the Board, shall be deemed to have been transferred to the local port corporation, in this case the Montréal Port Corporation.

2. Significant Accounting Policies

(a) Investments
Investments are shown at amortized cost, with premiums or discounts amortized over their periods to maturity.

(b) Inventories
Materials and supplies are valued at the lower of cost and replacement cost. Cost is determined substantially on average cost.

(c) Fixed Assets and Depreciation
Fixed assets are recorded at original cost with related accumulated depreciation transferred from Canada Ports Corporation; subsequent acquisitions are recorded at cost.

Depreciation is calculated according to the straight-line method for the full year, commencing in the year the asset becomes operational, using rates based on the estimated useful lives of the assets.

(d) Pension Costs
All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by the government of Canada. Contributions to the plan are required from both the employees and the Corporation. These contributions represent the total liability of the Corporation and are recognized in the accounts on a current basis.

(e) Grants in Lieu of Municipal Taxes
Grants in lieu of municipal taxes are based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

(f) Employee Benefits
The Corporation accrues in its accounts the estimated liabilities for severance pay, annual leave, sick leave and overtime compensatory leave, which are payable to its employees in subsequent years under collective agreements, or in accordance with Corporation policy.

3. Investments

Funds are invested in government of Canada direct securities and guaranteed by the government of Canada. As at December 31, 1989, the market value of the short-term investments is equivalent to their amortized cost, and market value of long-term investments is $43,868,057 ($42,450,600 in 1988).

4. Fixed Assets

(in thousands of dollars)

	Depreciation Rates	Cost	Accumulated Depreciation	1989 Net Book Value	1988 Net Book Value
Land		$ 26,086	$	$ 26,086	$ 23,230
Dredging	2.5%	16,177	12,651	3,526	3,510
Berthing structures	2.5%	60,430	39,828	20,602	20,598
Buildings	2.5-10%	71,291	31,713	39,578	38,072
Utilities	3.3-10%	17,751	7,824	9,927	10,052
Roads and surfaces	2.5-10%	55,225	17,017	38,208	37,552
Machinery and equipment	5-20%	54,963	37,873	17,090	18,381
Office furniture and equipment	20%	2,960	1,688	1,272	468
		304,883	148,594	156,289	151,863
Projects under construction		700	–	700	1,755
		$ 305,583	$ 148,594	$ 156,989	$ 153,618

5. Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities are amounts for deferred revenues of $632,317 ($1,002,793 in 1988) and for the current portion of long-term liabilities of $432,497 ($407,056 in 1988).

6. Loans from Canada

(in thousands of dollars)

	1989	1988
Loans bearing interest at 6.25% with blended annual principal and interest repayment requirements of $842,561 and maturing in the year 2000	$ 6,561	$ 6,968
Current portion	432	407
	$ 6,129	$ 6,561

Principal repayment requirements over the next five years amount to:

1990	1991	1992	1993	1994
$ 432,497	$ 459,528	$ 488,249	$ 518,765	$ 551,187

7. Contingencies

Claims aggregating approximately $6,300,000 in respect of lawsuits, guarantees and damages allegedly suffered on the Corporation property and sundry legal matters in dispute have been made against the Corporation but are not reflected in the accounts. In the opinion of the Corporation, its position is defensible and the final outcome of such claims should not result in any material loss.

8. Commitments

a) Contractual obligations for the completion, construction and purchase of fixed assets are estimated at $708,000.

b) In accordance with a government of Canada policy concerning payment of dividend, the Corporation would be required to pay a dividend, in respect of the 1989 fiscal year, based on a method of calculation using net income. This dividend payable before March 31, 1990, would amount to approximately $1,410,000 and would be applied against retained earnings.

9. Related Party Transactions

In the ordinary course of business, the Corporation enters into transactions with related parties, including the government of Canada, its agencies and other Crown corporations.

The Corporation derives revenues from related parties principally from grain warehousing and switching charges. The expenses paid to related parties are principally administration fees.

Board of Directors

André Gingras*
Chairman
President
André Gingras et associés Inc.
Westmount, Quebec

Bernard J. Finestone*
Vice-Chairman
President, Abbey-Finestone Inc.
Westmount, Quebec

Roger Bishop
Membre, Local 375
International Longshoremen's Association
Brossard, Quebec

Suzanne Brochu
Communications Officer
Caisse de dépôt et placement du Québec
Montréal, Quebec

Raphael Esposito
Esposito, Cocciardi, St-Onge & Beaulieu
Montréal, Quebec

* Members of the Executive Committee

Officers of the Corporation

André Gingras
Chairman

Dominic J. Taddeo
General Manager and Chief Executive Officer

Yvan Simard
Deputy General Manager

André Bédard
Director of Human Resources

Jacques Brault
Director of Police and Security

Jean-Pierre Desjardins
Director of Planning and Development

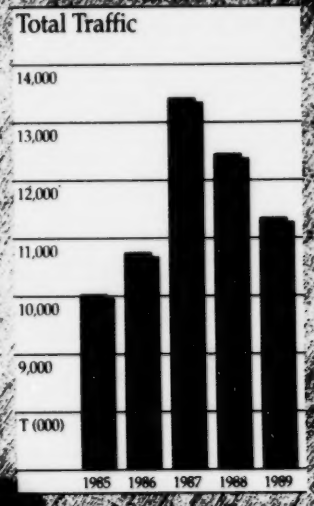
Roger Dubé
Director of Finance and Administration

Michel Lesage
Director of Operations

Frank Martini
Director of Marketing

Jean Mongeau
Corporate Secretary

Prince Rupert Port Corporation



Joint Message from the Chairman of the Board and the General Manager and Chief Executive Officer

Allan T. Sheppard

Robert W. Tytaneck

The Prince Rupert Port Corporation is pleased to report activities and results for the 1989 fiscal year. During the year, the port continued to focus on strategic issues which affect the future development and utilization of its facilities. The port also continued its intensive marketing program to ensure that all possible business opportunities are explored in order to optimize use of port facilities.

One of the major achievements for the Port of Prince Rupert for 1989 is the substantial completion of the Fairview Terminal expansion which provides increased terminal storage space of 35 percent and an additional ship berth. This will ensure that Canadian exporters of forest products have an effective and efficient gateway through which world markets can be reached for years to come. The expanded terminal will be in use by the spring of 1990.

In addition to the expansion of Fairview Terminal, the port is undertaking engineering studies on Westview Terminal which is located in the inner harbour of Prince Rupert. This strategically important site is expected to become a second general cargo terminal for the port. Discussions with potential customers and terminal operators are ongoing.

Another major strategic issue focussed on during the year is the acquisition of waterfront property. A Land Use Management Plan was completed for the port in 1989 which outlines the requirements for acquisition of waterfront land seen as strategic to the port's continued development. Progress in this initiative has been made during the year and will continue in order that the port can satisfy its objectives of developing the waterfront consistent with national, regional and local needs.

Total throughput at the Port of Prince Rupert in 1989 totalled 11.3 million tonnes, which is a 9 percent decline over the 1988 results. This decline is attributed to marginal decreases in most of the commodities handled at the port. Coal throughput at the port reached 5.9 million tonnes which relates to a 12 percent reduction over 1988 tonnage. Grain shipments of 3.28 million tonnes showed an 11 percent reduction over last year. Pulp shipments of 362,000 at Watson Island were also down over the previous year.

Traffic at the port owned Fairview Terminal remained the same as last year at one million tonnes. This included lumber throughput for the year of 791,000 tonnes which is a slight reduction over the previous year. The balance of the tonnage at Fairview was predominantly woodpulp, mineral concentrates and grain products.

While ferry passengers through the port increased during 1989 to 186,121 there was a decrease in the number of cruise passengers to 2,023. Several cruise vessels will again be based in the Port of Prince Rupert for the next cruise season.

Despite the decline in overall tonnage for the year, total vessel activity continued to increase. In 1989, a total of 1,702 commercial vessels called at the port, which relates to an increase of 5 percent over 1988 traffic.

The Port of Prince Rupert is pleased to announce favourable financial results for 1989. Operating revenues remained at $14.6 million with a net operating income of $3.8 million which is a slight reduction over last year. These financial results are particularly gratifying for the port as it continues to fund major development projects including the Fairview expansion.

In accordance with our statutory obligation, it is a pleasure for us to inform the Board of Directors, and the shareholder, that the Corporation made measurable progress in achieving its objectives; and that necessary procedures and controls are in place to ensure the safeguard of the Corporation's assets.

In conclusion, the port would like to thank everyone involved in waterfront activity in Prince Rupert for their effort and dedication during 1989. We are confident that the upcoming challenges of the 1990s can be met with this continued support from the industry. With the commitment and contribution of the Prince Rupert waterfront community, the Port of Prince Rupert will continue to expand and develop in order to meet the needs of its customers into the 1990s.

Allan T. Sheppard

Allan T. Sheppard
Chairman of the Board

H.W. Tytaneck

Robert W. Tytaneck
General Manager and Chief Executive Officer

Auditors' Report

To the Honourable
Doug Lewis, P.C., M.P.
Minister of Transport

We have examined the balance sheet of the Prince Rupert Port Corporation as at December 31, 1989 and the statements of income and surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, and the letters patent and by-laws of the Corporation.

Peat Marwick Thorne

Chartered Accountants

Vancouver, British Columbia
February 2, 1990

Balance Sheet as at December 31, 1989

Assets	1989	1988
Current		
Cash	$ 106,563	$ 54,386
Investments (note 1)	1,793,604	16,431,572
Accounts receivable	1,325,290	861,425
Materials and supplies	110,779	93,664
	3,336,236	17,441,047
Property and Equipment (note 2)	97,774,346	71,272,047
	$101,110,582	$ 88,713,094
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 3,317,012	$ 686,166
Payable to Canada	1,864,733	18,868
Grants in lieu of municipal taxes	500,874	394,598
Deferred revenues	173,481	149,330
Current portion of loans from Canada	80,129	–
	5,936,229	1,248,962
Long-Term Debt		
Recoverable contribution from Canada (note 3)	48,300,000	48,300,000
Loans from Canada (note 4)	4,419,871	–
	52,719,871	48,300,000
Equity of Canada		
Contributed capital	31,311,805	31,311,805
Surplus	11,142,677	7,852,327
	42,454,482	39,164,132
	$101,110,582	$ 88,713,094

Commitments (note 5)

On behalf of the Board:

Allan T. Sheppard
Chairman

Terrence R. Andrew
General Manager and Chief Executive Officer

Statement of Income and Surplus

year ended December 31, 1989	1989	1988
Revenue from operations	$ 14,372,103	$ 14,585,020
Expenses		
Operating and administrative	9,614,220	9,563,862
Depreciation	701,994	697,684
Grants in lieu of municipal taxes	544,573	407,665
	10,860,787	10,669,211
Income from operations	3,511,316	3,915,809
Other income (expense)		
Interest income	985,783	1,257,306
Settlement of litigation	–	87,507
Interest expense	(83,562)	–
	902,221	1,344,813
Net income	4,413,537	5,260,622
Surplus at beginning of year	7,852,327	3,536,276
	12,265,864	8,796,898
Dividend to Canada	1,123,187	944,571
Surplus at end of year	$ 11,142,677	$ 7,852,327

Statement of Changes in Financial Position

year ended December 31, 1989	1989	1988
Cash provided by (used for):		
Operations		
Net income	$ 4,413,537	$ 5,260,622
Items not involving cash		
Depreciation	701,994	697,684
Changes in non-cash operating working capital		
Accounts receivable	(463,865)	88,932
Materials and supplies	(17,115)	(26,342)
Accounts payable and accrued liabilities	2,630,846	139,258
Grants in lieu of municipal taxes	106,276	26,458
Deferred revenues	24,151	(12,886)
	7,395,824	6,173,726
Financing		
Increase in payable to Canada	1,845,865	15,903
Increase in loans from Canada	4,500,000	–
Dividend to Canada	(1,123,187)	(944,571)
	5,222,678	(928,668)
Investment		
Purchase of property and equipment	(27,204,293)	(656,981)
Increase (decrease) in cash position	(14,585,791)	4,588,077
Cash position at beginning of year	16,485,958	11,897,881
Cash position at end of year	$ 1,900,167	$ 16,485,958

Cash position is defined as cash and investments

Notes to Financial Statements

year ended December 31, 1989

Local Port Corporation

The Prince Rupert Port Corporation was established effective June 1, 1984 as a local port corporation pursuant to the *Canada Ports Corporation Act*. The Corporation is exempt from income taxes.

On June 1, 1984, all the assets and liabilities of Canada Ports Corporation relating to the Port of Prince Rupert were transferred to the Corporation at their book value as recorded by Canada Ports Corporation.

Summary of Significant Accounting Policies

(a) Investments

The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to maturity.

(b) Property and equipment

Property and equipment are recorded at cost. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related property and equipment.

Depreciation is calculated on the straight-line basis, commencing with the year the asset becomes operational, at rates based on the estimated useful lives of the assets as follows:

Dredging	2.5 - 6.7 %
Berthing structures	2.5 - 10 %
Buildings	2.5 - 10 %
Roads and surfaces	2.5 - 10 %
Utilities	3.3 - 10 %
Machinery and equipment	5 - 10 %
Office furniture and equipment	20 %

(c) Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

(d) Grants in lieu of municipal taxes

The expense for grants in lieu of municipal taxes is estimated based on municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

(e) Employee benefits

The Corporation accrues in its accounts annually the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees in subsequent years.

1. Investments

	1989	1988
Amortized cost	**$ 1,793,604**	$ 16,431,572
Market value	**$ 1,791,970**	$ 16,377,031

2. Property and Equipment

	Cost	Accumulated Depreciation	1989 Net Book Value	1988 Net Book Value
Land	$ 60,498,881	$ –	$ 60,498,881	$ 60,126,625
Dredging	5,177	1,553	3,624	3,753
Berthing structures	8,699,242	3,266,005	5,433,237	5,676,409
Buildings	2,470,756	521,987	1,948,769	1,905,268
Roads and surfaces	3,512,385	2,349,085	1,163,300	1,388,463
Utilities	2,597,237	1,396,223	1,201,014	1,305,281
Machinery and equipment	1,802,975	1,459,348	343,627	246,935
Office furniture and equipment	280,201	152,826	127,375	99,942
Construction in progress	27,054,519	–	27,054,519	519,371
	$106,921,373	$ 9,147,027	$ 97,774,346	$ 71,272,047

3. Recoverable Contribution from Canada

A recoverable contribution of $50,400,000 was approved for the construction of the infrastructure for the coal terminal facility on Ridley Island. The recoverable contribution as at December 31, 1989 is $48,300,000.

The total recoverable contribution was interest-free until April 1, 1989, thereafter it bears interest of approximately 13.9%.

Principal and interest on $48,300,000 of the contribution are repayable in annual instalments over the next 20 years, contingent upon the revenues received from a direct coal throughput surcharge of $ .44 per tonne for 1989, (escalating with the rate of increase in the Consumer Price Index) at a minimum throughput of 6,600,000 tonnes but not to exceed 12,000,000 tonnes per year. On April 1, 2009, it is anticipated that the unpaid balance of the contribution, if any, will be forgiven by the government of Canada.

As the Corporation acts as an intermediary between Ridley Terminals Inc. and the government of Canada, the surcharge revenues and interest payments are not reflected in the Corporation's statement of income. Rather, they are reflected on the balance sheet as payable to Canada.

As at December 31, 1989, the Corporation has received/receivable approximately $1,900,000 in connection with the above surcharge which is included in payable to Canada.

4. Loans from Canada

	1989	1988
Interest-bearing loans at 9.80% to 9.86% repayable in blended annual instalments, maturing in 2009	$ 4,500,000	$ –
Less portion included in current liabilities	80,129	–
	$ 4,419,871	$ –

Principal repayment requirements over the next five years are as follows:

1990	1991	1992	1993	1994
$ 80,000	$ 88,000	$ 97,000	$ 106,000	$ 117,000

$ 488,000

5. Commitments

(a) At December 31, 1989, commitments in connection with construction of a new berth at Fairview Terminal amounted to approximately $1,786,000.

(b) The Corporation rents a building under a long-term operating lease which expires May 1, 1991, the annual rental rate for which is $81,264. The aggregate rental payable to the expiry date amounts to $108,352.

(c) At December 31, 1989, the Corporation was committed to acquire a 12 hectare land parcel at Westview Terminal for approximately $1,200,000.

6. Related Party Transactions

(a) During the year, the Corporation received revenue of $1,489,644 (1988, $1,274,593) from Ridley Terminals Inc., a company in which Canada Ports Corporation has a significant investment. At December 31, 1989, the Corporation was owed $495,561 by Ridley Terminals Inc. (1988, $124,961).

(b) During the year the Corporation paid $463,961 (1988, $485,279) to Canada Ports Corporation as its share of that Corporation's head office expense.

Board of Directors

Allan T. Sheppard*
Chairman
Owner/Manager
Port Edward Marine Services
Prince Ruper, B.C.

Dolores D. MacIntosh*
Vice-Chairman
Property Manager
Prince Rupert, B.C.

John T. Payne*/**
General Manager
Universal Stores Inc.
Prince Rupert, B.C.

John D. McNish**
Manager
Credit Bureau of Prince Rupert
Prince Rupert, B.C.

William B. Hick
Physician (Retired)
Prince Rupert, B.C.

Donald Seidel**
Manager
Prince Rupert Motors Ltd.
Prince Rupert, B.C.

Ronald A. Ciccone
Agent
Mutual Life of Canada
Prince Rupert, B.C.

* Executive Committee
** Audit Committee

Officers of the Corporation

Allan T. Sheppard
Chairman

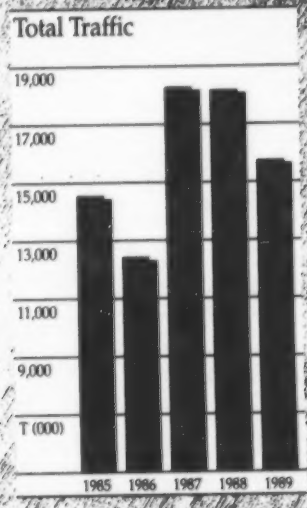
Robert W. Tytaneck
General Manager and Chief Executive Officer

Don H. Krusel
Manager, Finance and Administration

Joseph A. Stranan
Manager, Marketing and Planning

Terrence R. Andrew
Director, Technical Services

Port of Québec Corporation



Joint Message from the Chairman of the Board and the President and Chief Executive Officer

Guy Boulanger

Ross Gaudreault

The Port of Québec Corporation is pleased to submit its annual report for 1989. The year's events highlighted the role that deep water and intermodal transportation will play in future port development, while underscoring the importance of an ongoing corporate strategy based on diversification.

An increase in the volume of mineral concentrates and general cargo helped offset a decline in grain shipments which affected the entire Great Lakes – St. Lawrence maritime industry in 1989. Traffic at the Port of Québec totalled 15.7 million tonnes, compared to 18.2 million tonnes in 1988. The downturn was principally due to the fall in grain exports, since overall tonnage for other cargos handled at Corporation facilities actually increased by 8 percent.

The poor harvest registered on the Prairies in 1988, combined with the growing use of west coast ports, pushed grain transshipments from 4.5 million tonnes in 1988 down to only 2.8 million tonnes in 1989. The volume of petroleum products also declined as the Ultramar refinery carried out a renovation program which slowed regular operations. The project will however increase refining capacity by 10 percent in 1990.

In the handling of mineral concentrates, the Port of Québec continued to develop as the principal transshipment center serving the Great Lakes. With dockside depths of 15.5 meters at low tide, the port can receive deep-draft vessels which are unable to navigate on the St. Lawrence upstream. This type of cargo, including iron ore mainly destined to US steel mills, reached the 3.6 million tonne level in 1989, up from 3 million tonnes the previous year.

Positive results also marked activity in the general cargo sector. The volume of newsprint and cardboard attained a record 184,000 tonnes.

Financial Highlights

A brief summary of financial results for 1989 show overall revenues of $14.6 million and a net income of $1.7 million.

A Promising Future

In spite of the difficult situation currently experienced in the grain trade, the Port of Québec is on the verge of major development in several areas of activity. Marketing and diversification remain the basis of our corporate strategy and produced positive results in 1989.

Aluminerie Lauralco, a subsidiary of Alumax Corporation, announced plans to build a bulk terminal at the Port of Québec to handle raw materials bound for its new plant under construction at Deschambault. The project calls for a $31 million investment, including $6.3 million by the Port of Québec Corporation to rebuild two wharves. Lauralco will annually handle 415,000 tonnes of alumina and 75,000 tonnes of petroleum coke when operations begin at the terminal in 1991.

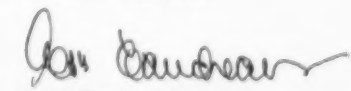
A $10 million upgrading program at the Beauport solid bulk terminal will begin in the spring of 1990. Direct ship-to-ship cargo transfers will be made possible by a new conveyor system, which will also provide additional flexibility for the storage and transshipment of products such as iron ore, coal and copper.

The Port of Québec Corporation will intensify efforts to develop a container terminal. The port's deep-water advantage, combined with the construction of ever-larger container ships, will be key factors in bringing this project to a successful conclusion.

The Corporation is also committed to maximizing the economic and social benefits of maritime activity. Our investment program to improve and promote the Port of Québec Marina provides a case in point. The number of boating enthusiasts visiting the facility increased by 34 percent in 1989, generating an economic impact of $1 million for the region's tourist industry.

To attain the ambitious objectives which it has set forth, the Port of Québec Corporation can depend on the competence and commitment of its employees. We wish to take this opportunity to thank them, as their collective talents make up the Corporation's most important asset at the dawn of a new and promising decade.

Guy Boulanger, f.c.a.
Chairman of the Board



Ross Gaudreault
President and Chief Executive Officer

Auditors' Report

To the Honourable
Doug Lewis, P.C., M.P.
Minister of Transport

We have examined the balance sheet of the Port of Québec Corporation as at December 31, 1989 and the statements of income, contributed capital, surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Ports Corporation Act* and with the letters patent and by-laws of the Corporation.

Peat Marwick Thorne

Chartered Accountants

Québec, Quebec
February 7, 1990

Balance Sheet as at December 31, 1989

Assets	1989	1988
Current		
Cash	$ 403,424	$ 500,552
Investments (note 1)	21,464,555	18,018,706
Accounts receivable	1,875,204	2,655,573
Materials and supplies	142,038	131,856
	23,885,221	21,306,687
Investments (note 1)	6,702,891	6,676,546
Fixed assets (note 2)	41,490,002	42,337,986
	$ 72,078,114	$ 70,321,219
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 1,749,375	$ 1,955,951
Grants in lieu of municipal taxes	664,000	398,200
Deferred revenues	817,416	795,178
	3,230,791	3,149,329
Long Term		
Accrued employee benefits	890,000	810,200
Equity of Canada		
Contributed capital	63,182,198	63,182,198
Surplus	4,775,125	3,179,492
	67,957,323	66,361,690
	$ 72,078,114	$ 70,321,219

Contingencies (note 6)
Commitment (note 7)

On behalf of the Board:

Guy Boulanger, f.c.a.
Chairman

Ross Gaudreault
President and Chief Executive Officer

Statement of Income

year ended December 31, 1989	1989	1988
Revenue from operations	$ 11,313,942	$ 11,177,475
Expenses		
Operating and administrative expenses	9,713,793	9,118,893
Depreciation	2,055,558	1,995,468
Grants in lieu of municipal taxes	1,149,559	1,053,686
	12,918,910	12,168,047
Loss from operations	(1,604,968)	(990,572)
Investment income	2,899,549	2,290,572
Net income before unusual item	1,294,581	1,300,000
Gain in settlement of past litigations	381,052	–
Net Income	$ 1,675,633	$ 1,300,000

Statement of Contributed Capital

year ended December 31, 1989	1989	1988
Balance at beginning of year	$ 63,182,198	$ 61,759,198
Contribution from Canada (note 3)	–	1,423,000
Balance at end of year	$ 63,182,198	$ 63,182,198

Statement of Surplus

year ended December 31, 1989	1989	1988
Surplus at beginning of year	$ 3,179,492	$ 2,186,751
Net income	1,675,633	1,300,000
Dividend to Canada	(80,000)	(307,259)
Surplus at end of year	$ 4,775,125	$ 3,179,492

Statement of Changes in Financial Position

year ended December 31, 1989	1989	1988
Cash provided by (used for):		
Operations		
Net income	$ 1,675,633	$ 1,300,000
Items not affecting cash		
Amortization of discount on Canada government bonds	(26,345)	(26,345)
Depreciation	2,055,558	1,995,468
Loss (gain) on disposal of fixed assets	55,075	(53,145)
Accrued employee benefits	79,800	41,722
	3,839,721	3,257,700
Changes in non-cash operating working capital (note 4)	851,649	543,234
	4,691,370	3,800,934
Investment		
Additions to fixed assets	(1,308,195)	(874,918)
Proceeds on disposal of fixed assets	45,546	58,152
Others	–	2,889
	(1,262,649)	(813,877)
Financing		
Contributed capital	–	1,423,000
Dividend to Canada	(80,000)	(307,259)
	(80,000)	1,115,741
Increase in cash position	3,348,721	4,102,798
Cash position at beginning of year	18,519,258	14,416,460
Cash position at end of year	$ 21,867,979	$ 18,519,258
Cash position is represented by:		
Cash	$ 403,424	$ 500,552
Investments	21,464,555	18,018,706
	$ 21,867,979	$ 18,519,258

Notes to Financial Statements

year ended December 31, 1989

General

The Port of Québec Corporation was incorporated on June 1, 1984, under article 6.2(1) of the *Canada Ports Corporation Act*.

Summary of Significant Accounting Policies

(a) Investments
Investments are direct securities guaranteed by Canada. They are presented at amortized cost and the premium or discount is amortized over the periods to maturity.

(b) Fixed assets
Fixed assets are recorded at cost except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants received from Canada and from third parties for capital projects are deducted from the cost of the related fixed assets.

Depreciation is calculated on the straight line basis for the full year commencing with the year the asset becomes operational, using the following annual rates:

Dredging	2.5 - 6.7 %
Berthing structures	2.5 - 10 %
Buildings	2.5 - 10 %
Utilities	3.3 - 10 %
Roads and surfaces	2.5 - 10 %
Machinery and equipment	5 - 20 %
Office furniture and equipment	20 %

(c) Pension costs
All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

(d) Insurance
The Port of Québec Corporation assumes all risks with respect to workers' compensation claims. Any costs arising from these claims are recorded in the accounts in the year, based on the invoices received or to be received from Labour Canada for the year.

(e) Grants in lieu of municipal taxes
The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

(f) Employee benefits
The Corporation accounts for estimated liabilities relating to severance pay, annual leave and overtime compensatory leave: these benefits are payable to its employees in subsequent years under its collective agreements, or in accordance with its policy.

1. Investments

Investments, which are direct securities guaranteed by Canada, are as follow:

	1989		1988	
	Cost	Market Value	Cost	Market Value
Current	$ 21,464,555	$ 21,411,038	$ 18,018,706	$ 17,947,547
Long term	$ 6,702,891	$ 7,520,074	$ 6,676,546	$ 7,208,678

2. Fixed Assets

			1989	1988
	Cost	Accumulated Depreciation	Net	Net
Land	$ 11,098,253	$ –	$ 11,098,253	$ 11,098,253
Dredging	4,561,341	3,979,369	581,972	610,033
Berthing structures	22,879,511	17,079,260	5,800,251	5,959,226
Buildings	33,563,707	15,212,907	18,350,800	19,160,156
Utilities	3,703,510	2,271,615	1,431,895	1,537,941
Roads and surfaces	5,930,727	3,927,074	2,003,653	2,369,830
Machinery and equipment	684,603	462,259	222,344	139,227
Office furniture and equipment	861,688	514,931	346,757	231,536
Projects under construction	1,654,077	–	1,654,077	1,231,784
	$ 84,937,417	$ 43,447,415	$ 41,490,002	$ 42,337,986

3. Contribution from Canada

Pursuant to a resolution from the Treasury Board, the Ministry of Transport has transferred at no cost on January 1, 1988, the administration, management, control and property of certain assets previously managed by Société Immobilière du Canada (Vieux Port de Québec) Inc. The Ministry of Transport of Canada paid to the Corporation in 1988 a total amount of $1,423,000 as a compensation to help absorb the estimated operating deficits for the next five years. This amount has been credited to contributed surplus.

4. Changes in Non-Cash Operating Working Capital

	1989	1988
Accounts receivable	$ 780,369	$ 662,421
Materials and supplies	(10,182)	(56,025)
Accounts payable and accrued liabilities	(206,576)	(123,698)
Grants in lieu of municipal taxes	265,800	54,200
Deferred revenues	22,238	6,336
	$ 851,649	$ 543,234

5. Related Party Transactions

During the year, the Corporation entered into transactions with related entities including various ministry, government organizations and Crown corporations. Principally, the Corporation earned rental revenues from related entities. The expenses paid to related parties mainly consist in management fees.

6. Contingencies

Claims aggregating approximately $900,000 have been received by the Corporation in respect of lawsuits and various other matters in dispute. In the Corporation's view, its position is defensible and the final outcome of such claims should not result in any material loss.

In addition, claims for an estimated amount of approximately $5,000,000 have been received by the Corporation concerning the ownership of certain lands. Any amount payable in connection with those claims will be capitalized to the cost of land.

These amounts are not recorded in the financial statements.

7. Commitment

The Corporation has made commitments totalling approximately $9,900,000 of which $440,000 has been expensed as at December 31, 1989, relating to the modernization of a solid bulk terminal.

Board of Directors

Guy Boulanger, f.c.a.*
Chairman
Partner
Caron Bélanger
Québec, Que.

Raymond Stuart McBain*
Vice-Chairman
President
Ver-Mac Inc.
Sainte-Foy, Que.

Denise Rancourt-Bélanger*
Lawyer
Lévis, Que.

Yvon Dolbec
President
Dolbec Y. Logistique Int'l Inc.
Sainte-Foy, Que.

Claude Gagné
Sales Representative
Toshiba of Canada Ltd.
Vanier, Que.

Roméo Savard
Foreman
International Longshoremen's Association
Québec, Que.

André Sarasin
Senior Vice-President
Engineering and Development
Les produits forestiers Daishowa
Québec, Quebec

* Member of the Executive Committee

Officers of the Corporation

Guy Boulanger, f.c.a.
Chairman

Ross Gaudreault
President and Chief Executive Officer

Louis-Philippe Cormier
Director, Administration

Mario Bernard
Director, Finance

Yvon Bureau
Director, Operations

Marc Dulude
Director, Marketing

Raymond Leclerc
Director, Engineering and Maintenance

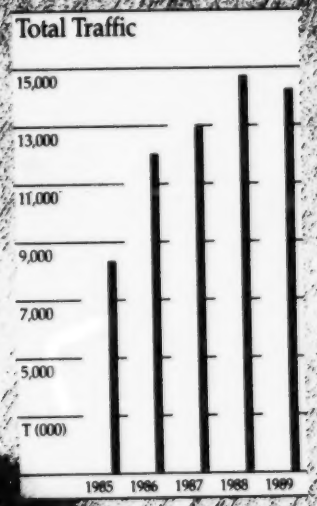
André Boulet
Director, Police and Security

Dave Johanson
Director, Promotion

Yvon Lambert
Director, Human Resources

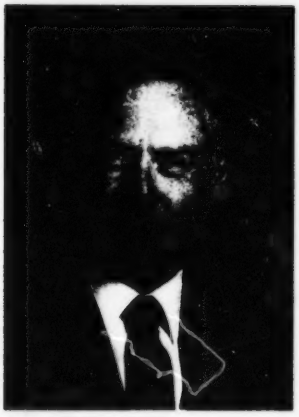
Gary Q. Ouellet, c.r.
Corporate Secretary

Saint John Port Corporation



Joint Message from the Chairman of the Board and the General Manager and Chief Executive Officer

Harry P. Gaunce



Kenneth R. Krauter

We are pleased to report on progress and accomplishments for 1989. Profitability was maintained for the second consecutive year and increased resources were directed to improving port facilities. Marketing activities were expanded and new opportunities are being pursued which will increase the importance of Saint John in marine transportation.

In accordance with our statutory obligation, it is a pleasure to inform the Board of Directors, and the shareholder, that the Corporation made measurable progress in achieving its objectives; and that necessary procedures and controls are in place to ensure the safeguard of the Corporation's assets.

Traffic Highlights

Increased shipments of petroleum, forest products and sugar contributed to an overall traffic level of 14.7 million tonnes which was close to the record 14.9 million tonnes of 1988. Petroleum traffic was up two percent to 11.6 million tonnes, forest products increased by fifteen percent to 931,000 tonnes and sugar shipments were up by twenty percent.

Container traffic continued at the same level as the previous year and new prospects for growth in containerized cargo were identified. Potash shipments declined by fifteen percent over the previous year due to soft market conditions at the beginning of the year. Shipments of grain were down significantly as a result of the change in the inland transportation subsidy for this commodity.

Financial Results

Last year was the second consecutive year that the Corporation achieved a positive net income. Revenue from operations totalled $11.3 million and net income from operations was $1 million. Investment income of $1.5 million was more than offset by interest expenses of $2.3 million on current debt obligations. Capital expenditures to improve port facilities amounted to $1.1 million.

A facilities development program was initiated in 1989. The Corporation spent approximately $2.4 million in a broad range of projects including terminal paving and redevelopment, repairs to berths and shed roofs, dredging and new terminal identification signs. Improving port facilities to better serve existing port customers and attract new business is an important part of our development plans.

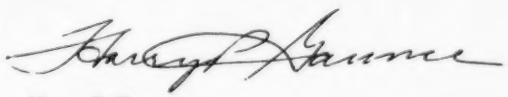
An Economic Impact Study of the port was completed in 1989. The study found that of 2,198 direct and indirect jobs generated by cargo handling activities at the port, over 1,550 are located in New Brunswick. The personal income impact of the port amounted to $113 million, of which $64 million was earned in New Brunswick. In 1988, the business revenue generated by port activities was $120 million and the total tax impact was $31 million. The study confirmed the vital importance of the Port of Saint John to the local, provincial and national economies.

Our marketing programs continued to expand in 1989. Early in the year the Corporation appointed a firm to represent the port in the United Kingdom and northern Europe. International marketing missions included a diverse range of locations including the United Kingdom, northern Europe and Scandinavia, Turkey, Cuba and Greenland. Increased marketing initiatives also encompassed the northeastern United States and eastern Canada.

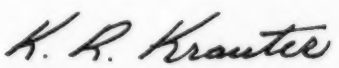
The Corporation formed a Cruise Ship Committee with representation from the local tourism and hospitality industry, ship agencies, the central business community, and municipal, provincial and federal tourism organizations. A number of cruise lines have subsequently announced that they will begin calling at the port.

Future Outlook

We look forward to the challenges and opportunities of the future. The members of the port community and our many customers have made an important contribution to our accomplishments during the past year. To our employees, we offer our sincere thanks for their commitment and dedication. The support of the Saint John Port Development Commission, the City of Saint John, and the province of New Brunswick is greatly appreciated. Working with these many people and organizations we are confident of a bright future for the Port of Saint John.



Harry P. Gaunce
Chairman of the Board



Kenneth R. Krauter
General Manager and Chief Executive Officer

Auditors' Report

To the Honourable
Doug Lewis, P.C., M.P.
Minister of Transport

We have examined the balance sheet of the Saint John Port Corporation as at December 31, 1989 and the statements of income and retained earnings and cash flows for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Ports Corporation Act* and the by-laws of the Corporation.

Ernst & Young

Chartered Accountants

Saint John, Canada
February 9, 1990

Balance Sheet as at December 31, 1989

(in thousands of dollars)

Assets	1989	1988
Current		
Cash	$ 7	$ 620
Investments (note 3)	11,419	8,427
Accounts receivable	1,327	1,512
Materials and supplies	45	46
	12,798	10,605
Long-term		
Long-term investments (note 3)	959	956
Fixed assets (note 4)	78,317	79,960
	79,276	80,916
Total assets	$ 92,074	$ 91,521
Liabilities		
Current		
Accounts payable and accrued charges	$ 1,110	$ 890
Deferred revenues	378	279
Grants in lieu of municipal taxes	84	103
	1,572	1,272
Long-term		
Accrued employee benefits	425	398
Financing provided by a province (note 5)	19,696	19,696
Loans from Canada (note 6)	20,052	20,052
	40,173	40,146
	41,745	41,418
Equity of Canada		
Contributed capital	49,372	49,372
Retained earnings	957	731
	50,329	50,103
Total liabilities and equity of Canada	$ 92,074	$ 91,521

See accompanying notes

On behalf of the Board:

Harry P. Gaunce
Chairman

K. R. Krauter

Kenneth R. Krauter
General Manager and Chief Executive Officer

Statement of Income and Retained Earnings

(in thousands of dollars)

year ended December 31, 1989	1989	1988
Revenues from operations	$ 11,375	$ 11,642
Expenses		
Operating and administrative	6,739	5,853
Grants in lieu of municipal taxes	754	727
Depreciation	2,696	2,700
Loss (gain) on disposal of fixed assets	98	(16)
	10,287	9,264
Income from operations before unusual item	1,088	2,378
Gain on disposal of land	–	1,218
Income from operations	1,088	3,596
Investment income	1,501	860
Interest expense	(2,363)	(2,363)
Net income	226	2,093
Retained earnings (deficit), beginning of year	731	(1,362)
Retained earnings, end of year	$ 957	$ 731

See accompanying notes

Statement of Cash Flows

(in thousands of dollars)

year ended December 31, 1989	1989	1988
Cash provided by (used in)		
Operations		
Net income	$ 226	$ 2,093
Add (deduct) items not requiring a cash payment		
Depreciation	2,696	2,700
Loss (gain) on disposal of fixed assets	98	(1,234)
Other	25	9
	3,045	3,568
Net change in non-cash working capital balances (note 7)	486	(2,300)
	3,531	1,268
Investing		
Additions to fixed assets	(1,152)	(785)
Proceeds on disposal of fixed assets	–	1,252
Recovery on Musquash Harbour Project	–	799
	(1,152)	1,266
Increase in cash and short-term investments	2,379	2,534
Cash and short-term investments, beginning of year	9,047	6,513
Cash and short-term investments, end of year	$ 11,426	$ 9,047

See accompanying notes

Notes to Financial Statements

year ended December 31, 1989

1. *Canada Ports Corporation Act* and Incorporation

In accordance with the *Canada Ports Corporation Act*, a petition for the establishment of a local port corporation at the Port of Saint John was approved and the Saint John Port Corporation was incorporated under the laws of Canada effective at the closing of business on December 31, 1986 and commenced operations January 1, 1987.

In accordance with the *Canada Ports Corporation Act*, the assets, liabilities and equity were transferred to the Saint John Port Corporation at their carrying values in the accounts of the Canada Ports Corporation - Port of Saint John.

2. Significant Accounting Policies

(a) Investments
The investments are shown at amortized cost whereby premiums or discounts from par value are amortized over the periods to maturity.

(b) Fixed assets
Fixed assets are recorded at cost except for those transferred to the Corporation from Canada which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational using rates as follows:

Dredging	2.5 - 6.7 %
Berthing structures	2.5 - 10.0 %
Buildings	2.5 - 10.0 %
Utilities	3.3 - 10.0 %
Roads and surfaces	2.5 - 10.0 %
Machinery and equipment	5.0 - 100.0 %
Office furniture and equipment	20.0 %

(c) Pension costs
All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

(d) Insurance
The Corporation assumes substantially all risks against fire and general perils, as well as for workers' compensation claims. Any costs arising from these risks are recorded in the accounts in the year they can be reasonably estimated.

(e) Grants in lieu of municipal taxes
The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

(f) Employee benefits
The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay and annual leave which are payable to its employees in subsequent years under its collective agreements or in accordance with its policy.

3. Investments

Investments are direct and guaranteed securities of Canada as follows:

(in thousands of dollars)

	1989		1988	
	Amortized Cost	Face Value	Amortized Cost	Face Value
Canada Treasury Bills	$ 11,419	$ 12,013	$ 8,427	$ 8,780
Canada Bonds	$ 959	$ 1,000	$ 956	$ 1,000

4. Fixed Assets

(in thousands of dollars)

	Cost	Accumulated Depreciation	1989 Net Book Value	1988 Net Book Value
Land	$ 30,426	$ –	$ 30,426	$ 30,363
Dredging	1,967	1,498	469	488
Berthing structures	63,670	29,095	34,575	35,945
Buildings	15,546	8,440	7,106	7,519
Utilities	7,734	3,706	4,028	4,250
Roads and surfaces	5,345	4,310	1,035	682
Machinery and equipment	1,834	1,664	170	244
Office furniture and equipment	1,167	815	352	454
Work under construction	156	–	156	15
	$ 127,845	$ 49,528	$ 78,317	$ 79,960

5. Financing Provided by a Province

The Province of New Brunswick advanced $25,000,000 to partially finance the construction of Rodney Terminal Complex, Saint John. The province will receive annual principal payments equal to approximately 47% of the net operating income of the terminal until the non-interest bearing advance is repaid. The cost of major repairs has been included in calculating the net operating income of the terminal and the current portion payable as at December 31, 1989 has been calculated accordingly. The province is disputing this accounting treatment. Had net operating income not been reduced by the cost of these major repairs, the current portion payable would be approximately $1,030,000.

6. Loans from Canada

(in thousands of dollars)

	1989	1988
Term loans bearing interest at 11.0% to 12.43% between December 31, 1998 and 2005	$ 20,052	$ 20,052

7. Net Change in Non-Cash Working Capital Balances

(in thousands of dollars)

	1989	1988
Decrease (increase) in current assets		
Accounts receivable	$ 185	$ (304)
Materials and supplies	1	48
	186	(256)
Increase (decrease) in current liabilities		
Accounts payable and accrued charges	220	(2,153)
Deferred revenues	99	6
Grants in lieu of municipal taxes	(19)	103
	300	(2,044)
	$ 486	$ (2,300)

8. Related Party Transactions

During the year the Corporation paid $696,000 (1988 - $728,000) to Canada Ports Corporation as its share of that Corporation's head office expense.

Board of Directors

Harry P. Gaunce *
Chairman
President
Armstrong & Bruce Insurance Ltd.
Saint John, N.B.

Henry Meinhardt */**
Vice-Chairman
President
Fundy Ventilation Ltd.
Saint John, N.B.

Edgar R. Cohen ***
Owner
Hoffman's Limited
Saint John, N.B.

Fernand Lanteigne ***
Owner/General Manager
Les Chantiers Nord-Est Ltee
Societe du cable de la Peninsule
Caraquet, N.B.

David R. MacPherson **
President and Business Manager
IBEW, Local 502
Saint John, N.B.

Shirley A. McAlary **
Agent
Air Canada
Saint John, N.B

Joseph V. Streeter*/***
Vice-President
R.B.C. Dominion Securities Inc.
Saint John, N.B.

* Executive Committee
** Human Resources and Compensation Committee
*** Audit Committee

Officers of the Corporation

Harry P. Gaunce
Chairman

Henry Meinhardt
Vice-Chairman

Kenneth R. Krauter
General Manager and Chief Executive Officer

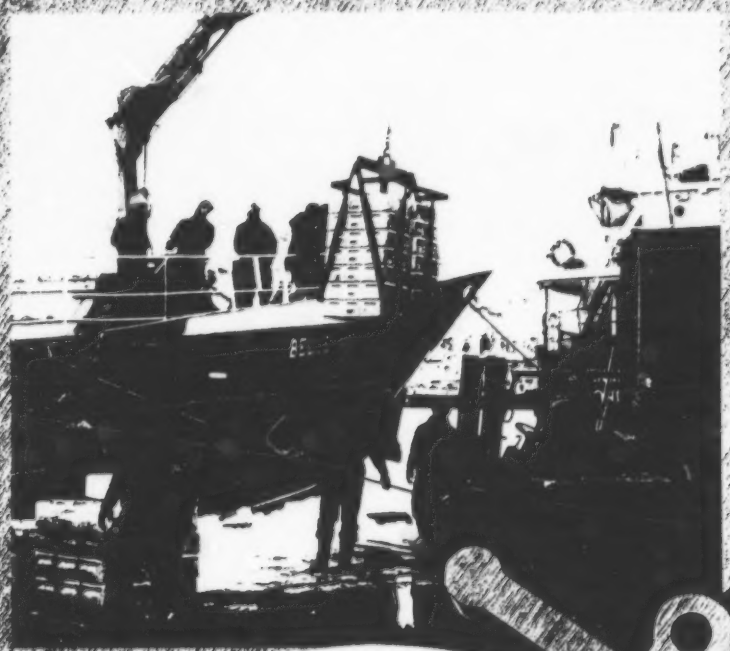
Peter D. Clark
Director, Marketing

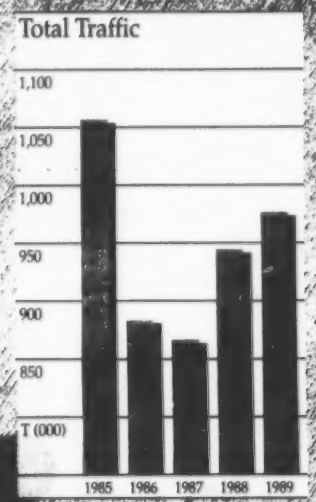
R. Adam McBride
Director, Finance and Administration

Captain Cy E. Pringle
Director, Engineering and Operations

Ardith L. Bartlett
Corporate Secretary

St. John's Port Corporation





Joint Message from the Chairman of the Board and the Port Manager and Chief Executive Officer

Fred M. Milley

David J. Fox

Results for the Corporation covering the year 1989 were better than our original forecast. Although total vessel arrivals decreased by 8 percent, this was more than offset by an increase of 18 percent in container tonnage and an increase of 3 percent in total port tonnage.

Net income of $429,300 was in excess of our forecast and also exceeded 1988 results. Increased tonnage, together with a reduction in operating expenses, contributed to the satisfactory results.

In accordance with our statutory obligation, we are pleased to inform the Board of Directors, and the shareholder, that the Corporation made measurable progress in achieving its objectives; and that necessary procedures and controls are in place to ensure the safeguard of the Corporation's assets. This was confirmed by the audit report which stated that the examination disclosed no weaknesses or exceptions in either system or procedures which would require improvement or review.

Terminal Expansion

In our 1988 report, it was stated that the Corporation was endeavouring to obtain additional property adjoining the container terminal. We are pleased to report that a large parcel of land was purchased from Hammerson Canada Inc. and significant progress was made on obtaining a smaller parcel from Transport Canada's asset disposal committee; the committee responsible for the disposition of former CN property in St. John's. At year end, the port concluded an arrangement with the City of St. John's to carry out certain street realignment and this will enable the Corporation to upgrade and incorporate the property purchased from Hammerson Canada Inc. with the container terminal. The upgrading and incorporation of the property from Transport Canada will be carried out at the same time.

1989 Objectives

In accordance with proposals suggested in the special examination and marketing study, carried out in 1988, certain reorganization changes were made during the operating year. We feel that the changes made contributed to the efficiency of the organization. Although we are very limited in marketing opportunities, our objective is to provide the best possible services and facilities for customers located in the Port of St. John's. A position of marketing officer was established so that there is a day-to-day liaison with port users. Other eastern Newfoundland ports are aggressively promoting to try and increase their share of container traffic, but we feel we can meet this challenge.

Capital Improvements

The planned capital improvement for 1990 is to upgrade and incorporate recently acquired property with the container terminal. At an estimated cost of $1.6 million, this is the only major capital expenditure in our five-year plan. This position could change in the event a firm commitment is made to proceed with the construction phase of offshore oil production. Reports indicate that oil prices are increasing and, if this trend continues, the outlook for production will be much more positive.

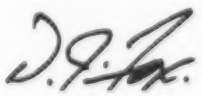
Economic Outlook

As a result of serious problems in the fishing industry, the economic outlook for the province is very negative. The already high unemployment rate will increase creating a negative impact on the economy. As a result, anticipated growth in container traffic may not occur. This could be offset by a decision to proceed towards the production of offshore oil.

The Corporation recognizes the seriousness of recent developments and previously projected increases for container tonnage may have to be revised. Nevertheless, the port operation will continue to be a major contributor to the overall economy of the St. John's area.

With the continued dedication of our employees and the support of the port community, we are optimistic that future results will be positive. The Board appreciates the contribution made by the staff of the Corporation and with the team approach will be able to achieve our objectives.

Fred M. Milley
Chairman of the Board



David J. Fox, P.Eng.
Port Manager and Chief Executive Officer

Auditors' Report

To the Honourable
Doug Lewis, P.C., M.P.
Minister of Transport

We have examined the balance sheet of the St. John's Port Corporation as at December 31, 1989, and the statements of income and surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Ports Corporation Act* and the by-laws of the Corporation.

Chartered Accountants

St. John's, Newfoundland
February 7, 1990

Balance Sheet as at December 31, 1989

Assets	1989	1988
Current		
Cash	$ 1,834	$ 36,008
Investments (Note 3)	1,311,118	1,920,228
Accounts receivable	370,777	361,184
Due from Canada	75,095	–
	1,758,824	2,317,420
Fixed (Note 4)	14,784,522	14,563,595
	$ 16,543,346	$ 16,881,015
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 250,346	$ 776,689
Grants in lieu of municipal taxes	46,375	93,175
Deferred revenues	301,238	278,696
Current portion of loans from Canada	220,036	200,622
	817,995	1,349,182
Accrued employee benefits	91,491	107,324
Loans from Canada (Note 5)	2,912,126	3,132,162
	3,821,612	4,588,668
Equity of Canada		
Contributed capital	10,131,636	10,131,636
Surplus	2,590,098	2,160,711
	12,721,734	12,292,347
	$ 16,543,346	$ 16,881,015

Contingencies (Note 6)

On behalf of the Board:

Fred Milley
Chairman

David J. Fox, P. Eng.
Port Manager and Chief Executive Officer

Statement of Income and Surplus

year ended December 31, 1989	1989	1988
Revenue from operations	$ 3,026,807	$ 2,707,306
Operating and administrative expenses	1,637,620	1,718,025
Depreciation	781,964	747,357
Grants in lieu of municipal taxes	39,124	57,711
	2,458,708	2,523,093
Income from operations	568,099	184,213
Investment income	182,182	135,778
Interest expense	(320,894)	(259,468)
Net income	429,387	60,523
Surplus, beginning of year	2,160,711	2,100,188
Surplus, end of year	$ 2,590,098	$ 2,160,711

Statement of Changes in Financial Position

year ended December 31, 1989	1989	1988
Cash provided from (used for):		
Operating activities		
Net income	$ 429,387	$ 60,523
Depreciation	781,964	747,357
Other non-cash items	(15,833)	5,199
	1,195,518	813,079
Changes in		
Accounts receivable	(9,593)	(76,961)
Due from Canada	(75,095)	–
Accounts payable and accrued liabilities	(526,343)	281,604
Grants in lieu of municipal taxes	(46,800)	57,711
Deferred revenues	22,542	22,913
Current portion of loans from Canada	19,414	75,786
	579,643	1,174,132
Financing activities		
Capital grants	2,075,095	–
Loans from Canada	(220,036)	799,378
	1,855,059	799,378
Investing activities		
Proceeds on disposals of fixed assets	–	20,283
Purchase of fixed assets	(3,077,986)	(984,699)
	(3,077,986)	(964,416)
Net cash provided (used)	(643,284)	1,009,094
Cash and short term investments, beginning of year	1,956,236	947,142
Cash and short term investments, end of year	$ 1,312,952	$ 1,956,236

1.

In accordance with the *Canada Ports Corporation Act*, a petition for the establishment of a local port corporation at the Port of St. John's was approved and the St. John's Port Corporation was established effective June 1, 1985.

In accordance with the *Canada Ports Corporation Act*, the assets, liabilities and equity were transferred at their carrying values in the accounts of the Canada Ports Corporation - Port of St. John's to the St. John's Port Corporation.

2. Significant Accounting Policies

(a) Investments
The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to maturity.

(b) Fixed assets
Fixed assets are recorded at cost except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

Depreciation is recorded on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates indicated in Note 4.

(c) Pension costs
All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions for pensions are recognized in the accounts on a current basis.

(d) Grants in lieu of municipal taxes
The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

(e) Employee benefits
The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees in subsequent years in accordance with its policy.

3. Investments

	1989		1988	
	Amortized Cost	Face Value	Amortized Cost	Face Value
Short term	$ 1,311,118	$ 1,324,100	$ 1,920,228	$ 1,935,300

4. Fixed Assets

				1989	1988
	Depreciation Rates	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	–	$ 4,643,700	$ –	$ 4,643,700	$ 4,643,700
Berthing structures	2.5-10%	9,503,251	5,617,031	3,886,220	2,765,708
Buildings	2.5-10%	1,912,791	1,272,669	640,122	390,633
Utilities	3.3-10%	3,123,735	817,740	2,305,995	2,448,376
Roads and surfaces	2.5-10%	4,173,992	1,231,374	2,942,618	3,277,339
Machinery and equipment	5-100%	296,413	93,643	202,770	144,816
Office furniture and equipment	20%	202,606	142,431	60,175	45,706
Projects under construction	–	102,922	–	102,922	847,317
		$ 23,959,410	$ 9,174,888	$ 14,784,522	$ 14,563,595

5. Loans from Canada

	1989	1988
Term loans, bearing interest at 9.33% to 10.015%, maturing between 1997 and 2000, repayable in equal annual instalments of principal and interest of $521,516.	$ 3,132,162	$ 3,332,784
Principal instalments payable within one year	220,036	200,622
	$ 2,912,126	$ 3,132,162

The loans from Canada are unsecured.

Annual principal repayments in each of the next five years are as follows:
1990 — $220,036; 1991 — $241,331; 1992 — $264,689; 1993 — $290,309; 1994 — $318,412.

6. Contingent Liabilities

Claims aggregating approximately $364,000 arising from alleged damages suffered on the Corporation's property have been received by the Corporation.

The Corporation is a third party defendant, and has denied any liability, and no material loss is anticipated.

7. Related Party Transactions

a) During the year the Corporation received approval of a capital grant in the amount of $3,400,000 from the federal government. Of this amount, $2,075,095 was received during the year, and the remaining funds will be advanced to the Corporation over the years 1990 and 1991.

b) During the year the Corporation paid $193,008 (1988 — $201,875) to Canada Ports Corporation as its share of that Corporation's head office expense.

Board of Directors

Fred Milley */**
Chairman
St. John's, Nfld.

Faith Good */**
Vice-Chairman
St. John's, Nfld.

Tom Osborne *
Owner
Tom Osborne Real Estate
St. John's, Nfld.

Paul Reynolds *
Training Supervisor, Motorist Sales
Ultramar Canada Inc.
St. John's, Nfld.

Michael Walsh **
General Chairman
Transportation Communication International Union (Retired)
St. John's, Nfld.

Dermot Dobbin */**
President
BRADCO
St. John's, Nfld.

Art Puddister *
Manager
Puddister Trading Co.
St. John's, Nfld.

* Executive Committee
** Executive / Compensation Committee
° Audit Committee

Officers of the Corporation

Fred Milley
Chairman

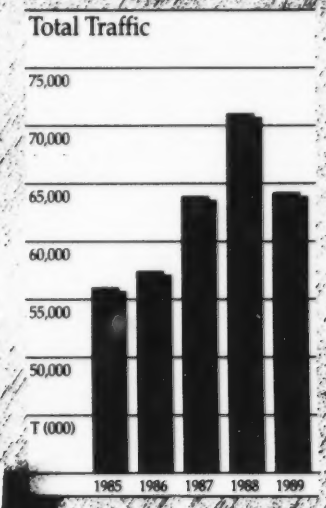
Faith Good
Vice-Chairman

David J. Fox
Port Manager and Chief Executive Officer

Brian Scott
Manager, Finance and Administration

Keith F. Rose
Corporate Secretary

Vancouver Port Corporation



Joint Message from the Chairman of the Board and the Port Manager and Chief Executive Officer

Captain Hector D. Perry

Francis J. MacNaughton

1989 marked the 125th Anniversary of the Port of Vancouver. It was also a year of dramatic expansion in the business focus of the Vancouver Port Corporation (VPC).

Changing standards relative to the environment and public consultation attained equal prominence with the more traditional priorities of operations and throughput in VPC's managing strategies.

Western Canada's resource-based economy continued to strengthen, translating into solid export commodity sales. However, Prairie drought and an unexpected pricing dispute in a single commodity contributed to a decline in total port throughput, from 1988's record of 71.3 million tonnes to 64 million tonnes.

The port's grain business posted losses of 26 percent over 1988, while a pricing dispute between India and Morocco resulted in Alberta sulphur plummeting 31 percent. Other resource exports, notably coal and forest products held steady.

The port's cruise and container sectors did well, with the latter steadily improving in the final quarter to close at 305, 688 TEU's; down only marginally from last year.

VPC's financial performance in 1989 was strong. The Corporation generated a 1.2 percent increase in operating revenues reflecting increased revenue from tariffs and property rentals. Net income for 1989 ($28.4 million) contrasts with 1988's figure of $38.1 million which included a gain of $10 million on a single land sale.

VPC drew on its good financial showing to invest $19.7 million in capital improvements including the installation of two new container cranes, rehabilitation of a grain pier and construction of a specialized forest products storage shed.

Simultaneously VPC moved forward with formalized Land Use/Land Management Planning. In this context, and in common with industry worldwide, Canada's largest port is encountering public demand for "sustainable development" and a greater say in enterprises which may affect quality of life. For VPC, the challenge will be to meet these emerging local expectations while still meeting its national trade/transport obligations to all of Canada.

VPC has launched response strategies in this area with the formation of a Port Municipal Liaison Committee comprising our eight neighbouring municipalities.

In another manifestation of public process, VPC sought community input to its Marine Recreational Resource Use Study through a series of "Open House" meetings in the late fall.

Driving these initiatives by the Vancouver Port Corporation is the accelerating evolution of business realities for major seaports. Short and long term land management is identified as crucial to the port's ability to meet its national mandate – and to grow into the new century. Urban encroachment, subjective environmental expectations and diverse agendas of non-port jurisdictions will profoundly affect the levels of achievement possible for the Port of Vancouver over the next decade. Indeed, the competitive efficiencies of Canada's trade/transport resources themselves may well be predicated on precisely these issues.

In 1989, VPC and the port community shared the pride and accomplishments of 125 years as Canada's largest port. Special events ranged from an award-winning "Commemorative Issue" of Port News to a gala 850-person "Anniversary Dinner" co-hosted by VPC and the local marine industry.

VPC's Board and management especially recognizes the skills, loyalty and productive efforts of the Corporation's staff as the driving force behind the year's performance.

Of particular note was the achievement of an internally-negotiated 3-year Collective Agreement between VPC and its office and maintenance workers represented by Local 517 of the International Longshoremen's and Warehousemen's Union (ILWU).

Entering a new decade, VPC welcomes the challenge of change, confident that the Corporation possesses the abilities — and the attitudes — to achieve its full potential for Canada and Canadians.

Captain Hector D. Perry
Chairman of the Board

Francis J. MacNaughton
Port Manager and Chief Executive Officer

Auditors' Report

To the Honourable
Doug Lewis, P.C., M.P.
Minister of Transport

We have examined the balance sheet of Vancouver Port Corporation as at December 31, 1989 and the statements of income and retained earnings and changes in cash resources for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1989 and the results of its operations and the changes in its cash resources for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations and the charter and by-laws of the Corporation.

Peat Marwick Thorne

Chartered Accountants

Vancouver, British Columbia
February 23, 1990

Balance Sheet as at December 31, 1989

(in thousands of dollars)

Assets	1989	1988
Current Assets		
Cash	$ 272	$ 849
Investments (note 1)	89,796	87,218
Accounts receivable	6,894	8,644
Materials and supplies	417	363
	97,379	97,074
Long-Term Receivables (note 2)	6,702	7,120
Property and Equipment (note 3)	199,283	187,492
	$ 303,364	$ 291,686
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	$ 4,533	$ 10,598
Grants in lieu of municipal taxes	3,823	6,316
Deferred revenues	2,403	2,326
	10,759	19,240
Accrued Employee Benefits	1,271	1,164
Loan from Canada (note 4)	3,504	3,734
	15,534	24,138
Equity of Canada		
Contributed capital	88,273	88,273
Retained earnings	199,557	179,275
	287,830	267,548
	$ 303,364	$ 291,686

Commitments and Contingency (note 5)

On behalf of the Board:

Captain Hector D. Perry
Chairman

Colin B. Warner
Director

Statement of Income and Retained Earnings

year ended December 31, 1989	1989	1988
	(in thousands of dollars)	
Operating revenue	$ 52,390	$ 51,780
Expenses		
Operating and administrative expenses	20,823	19,441
Grants in lieu of municipal taxes	5,461	4,423
Depreciation	7,273	6,442
	33,557	30,306
Income from operations	18,833	21,474
Investment income	9,820	6,952
Interest expense	(296)	(343)
	9,524	6,609
Income before unusual item	28,357	28,083
Unusual item		
Gain on sale of land	–	10,000
Net income	28,357	38,083
Retained earnings at beginning of year	179,275	147,204
	207,632	185,287
Dividend payment to Canada	(8,075)	(6,012)
Retained earnings at end of year	$ 199,557	$ 179,275

Statement of Changes in Cash Resources

year ended December 31, 1989	1989	1988
	(in thousands of dollars)	
Cash provided by (used for):		
Operations		
Net income	$ 28,357	$ 38,083
Items not involving cash		
Depreciation	7,273	6,442
Gain on sale of land	–	(10,000)
Other	730	479
Changes in non-cash operating working capital	(6,784)	6,513
	29,576	41,517
Financing		
Loan from Canada currently payable	(230)	(215)
Dividend payment to Canada	(8,075)	(6,012)
	(8,305)	(6,227)
Investments		
Additions to property and equipment	(19,704)	(12,746)
Proceeds on sale of land	–	10,000
Other	434	478
	(19,270)	(2,268)
Increase in cash resources	2,001	33,022
Cash resources at beginning of year	88,067	55,045
Cash resources at end of year	$ 90,068	$ 88,067

Cash resources are defined to include cash and investments.

Notes to Financial Statements

year ended December 31, 1989

General

The Vancouver Port Corporation was established effective July 1, 1983 as a local port corporation pursuant to the *Canada Ports Corporation Act* and is a parent Crown corporation named in Schedule III, Part II of the *Financial Administration Act*. The Corporation is exempt from income taxes.

The objectives of the Corporation are to manage and administer the harbour of Vancouver as an effective instrument in support of the national ports policy as set out in the *Canada Ports Corporation Act*.

Summary of Significant Accounting Policies

These financial statements have been prepared by management in accordance with generally accepted accounting principles considered to be appropriate in the circumstances and consistently applied. A summary of the significant accounting policies of the Corporation is as follows:

(a) Property and equipment

Property and equipment are recorded at cost. Depreciation is calculated on the straight-line basis, commencing with the year the asset becomes operational, at rates based on the estimated useful lives of the assets as follows:

Dredging	15 to 40 years
Berthing structures, buildings, roads and surfaces	10 to 40 years
Utilities	10 to 33 years
Machinery and equipment	1 to 20 years
Office furniture and equipment	5 years

(b) Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employees and the Corporation. Although the Plan is a defined benefit plan, the contributions represent the total pension liability of the Corporation and are recognized in the accounts on a current basis.

(c) Grants in lieu of municipal taxes

Grants in lieu of municipal taxes are estimated based on municipal assessments adjusted in accordance with the *Municipal Grants Act*. After the amounts have been audited by the Municipal Grants Division of Public Works Canada, any adjustments upon finalization are reflected in the accounts in the period of settlement.

(d) Employee benefits

The Corporation accrues in its accounts the estimated liabilities for severance pay and annual leave. These benefits are provided under collective agreements and corporate policy.

1. Investments

Current investments are in government of Canada treasury bills and at December 31, 1989 and 1988 the market value of the treasury bills approximated carrying value.

Long-Term Receivable

(in thousands of dollars)

	1989	1988
Non-interest-bearing agreement with B.C. Rail, due as and when rail trackage is constructed on Roberts Bank causeway or April 1, 1994, whichever is earlier	$ 3,947	$ 3,947
Long-term agreement for sale of No. 1 Elevator, bearing interest at 6-5/8% per annum, payable in blended annual instalments of $462,916, maturing December 31, 1996	2,528	2,805
Less current portion	(296)	(277)
	2,232	2,528
Long-term agreement for sale of No. 3 Elevator, bearing interest at 5-3/4% per annum, payable in annual instalments of $117,720 plus interest, maturing August 1, 1994	589	706
Less current portion	(118)	(117)
	471	589
Other	52	56
	$ 6,702	$ 7,120

3. Property and Equipment

(in thousands of dollars)

	Cost	Accumulated Depreciation	1989 Net	1988 Net
Land	$ 77,124	$ –	$ 77,124	$ 76,403
Dredging	366	201	165	176
Berthing structures	53,634	25,521	28,113	27,219
Buildings	43,133	10,691	32,442	33,473
Utilities	14,492	6,314	8,178	7,910
Roads and surfaces	32,483	18,738	13,745	13,596
Machinery and equipment	39,850	12,235	27,615	15,984
Office furniture and equipment	2,776	1,624	1,152	1,373
Projects under construction	10,749	–	10,749	11,358
	$ 274,607	$ 75,324	$ 199,283	$ 187,492

4. Loan from Canada

(in thousands of dollars)

	1989	1988
Interest-bearing loan at 7.5%, repayable in blended annual instalments, maturing December 31, 2000	$ 3,734	$ 3,949
Less current portion	(230)	(215)
	$ 3,504	$ 3,734

Principal repayment requirements over the next five years are as follows:

1990	1991	1992	1993	1994
$ 230,000	$ 248,000	$ 266,000	$ 286,000	$ 308,000

$ 1,338,000

5. Commitments and Contingency

a) Contractual obligations for the completion, construction and purchase of property and equipment as at December 31, 1989 are estimated at $8,285,000.

b) At December 31, 1989, the Corporation had claims from municipalities for grants in lieu of taxes of approximately $8.0 million greater than the amount accrued in the financial statements.

c) There are claims against the Corporation for $8.6 million plus unspecified damages. The likelihood of these claims succeeding is not determinable. The effect, if any, of the ultimate resolution of these matters will be accounted for as a prior adjustment when known.

6. Related Party Transactions

In addition to the loan from Canada disclosed in note 4, the Corporation paid $1,701,000 (1988, $1,779,000) to Canada Ports Corporation as its share of that Corporation's operating expenses.

Board of Directors

Captain Hector D. Perry °
Chairman
Ganges, B.C.

Jane E. Frost **/*/∞
Vice-Chairman
Vancouver, B.C.

Laurie G. Maranda */**/∞
Vice President
Choukalos, Woodburn, McKenzie, Maranda Ltd.,
Consulting Engineers
Vancouver, B.C.

Richard I. Nelson */*
Vancouver, B.C.

Gary C.H. Short **
Vancouver, B.C.

Rodney A. Snow °/∞
Barrister and Solicitor
Davis & Co.
Vancouver, B.C.

Colin B. Warner *
Senior Vice President
Finance and Distribution
Weldwood of Canada Limited
Vancouver, B.C.

* Member, Audit Committee
** Member, Planning and Budget Committee
° Member, Executive Committee
∞ Member, Economic Development and Community Relations Committee

Officers of the Corporation

Captain Hector D. Perry
Chairman

Francis J. MacNaughton
Port Manager and Chief Executive Officer

Captain Norman C. Stark
Deputy Port Manager and Chief Operating Officer

Donald G. Buggie
Assistant Port Manager, Administration

Thomas A. Shortridge
Assistant Port Manager, Port Services

Robin B.L. Kimpton
Corporate Secretary

Corporate Directory

Board of Directors

The Honourable A.R. Huntington
Chairman
Ottawa, Ont.

William Marsh
Vice-Chairman
Sydney, N.S.

Jean Michel Tessier
President and Chief Executive Officer
Canada Ports Corporation
Ottawa, Ont.

Dr. John Balkwill
Kanata, Ont.

Robert Dowling
President, Cavell Drugs Ltd.
Jasper, Alta.

André Gingras
Chairman, Montréal Port Corporation
Montréal, Que.

Brian Keple
Cobble Hill, B.C.

Richard K. Lester
Vancouver, B.C.

A.R. "Sandy" MacLean
Principal
Dalhousie Regional High School
Dalhousie, N.B.

C. Peter MacLean
Vice President
J.W. MacDonald & Company Ltd.
New Glasgow, N.S.

Arnold E. Masters
Nun's Island, Que.

Donald A. Parker
Chairman
Halifax Port Corporation
Halifax, N.S.

Captain H.D. Perry
Chairman
Vancouver Port Corporation
Ganges, B.C.

James B. Powers
President and General Manager
Labrador Construction Co. Ltd.
St. John's, Nfld.

Jean Riou
Lawyer
Jolin, Fournier, Morisset
Sainte-Foy, Que.

Wallace S. Turnbull, Q.C.
Partner
Clark, Drummie & Company
Saint John, N.B.

Robert H. Vandewater
Vice President and Sr. Account Executive
Wood Gundy Inc.
Winnipeg, Man.

Officers of the Corporation

The Honourable A.R. Huntington
Chairman

William Marsh
Vice-Chairman

Jean Michel Tessier
President and Chief Executive Officer

Hassan J. Ansary
Executive Vice President

Robert W. Tytaneck*
Vice President, Finance and Administration

Christos Sampson
Director General, Police and Security

Warren D. McCrimmon
Vice-President, Legal/Realty
Corporate Secretary

Theophile Lauzon
Senior Port Manager

* effective January 15, 1990

Executive Committee

Chairman	The Honourable A.R. Huntington
Vice-Chairman	William Marsh
Members	Dr. John Balkwill
	Arnold E. Masters
	Captain H.D. Perry
	Jean Michel Tessier
	Wallace S. Turnbull
	Robert H. Vandewater

Audit Committee

Chairman	Robert H. Vandewater
Members	Robert Dowling
	A.R. "Sandy" MacLean
	C. Peter MacLean
	James B. Powers

Corporate Planning and Budget Committee

Chairman	James B. Powers
Members	Robert Dowling
	Richard K. Lester
	Arnold E. Masters
	Jean Riou
	Wallace S. Turnbull

Police Committee

Chairman	Brian Keple
Members	D. Cassidy (Member at large)
	Robert Dowling
	The Honourable K.A. Flanigan (Member at large)
	The Honourable A.R. Huntington
	Donald A. Parker
	Jean Michel Tessier